

CONFORMED COPY
LOAN NUMBER 3778 ME

Loan Agreement
(Rainfed Areas Development Project)
between
INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
and
NACIONAL FINANCIERA, S.N.C.

Dated July 19, 1994
LOAN NUMBER 3778 ME
LOAN AGREEMENT

AGREEMENT, dated July 19, 1994, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NACIONAL FINANCIERA, S.N.C. (the Borrower).

WHEREAS (A) United Mexican States (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, subparagraph (k) is relettered as subparagraph

(l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "CODEITT" means the Guarantor's Interinstitutional Delegation Committee on Technology Transfers (Comite Delegacional Interinstitucional de Transferencia de Tecnologia);

(b) "FIRCO" means the Guarantor's Trust Fund for Shared Risk (Fideicomiso de Riesgo Compartido), a trust established by the Guarantor with Banco Nacional de Credito Rural as trustee and governed by the Convenio Modificadorio al Contrato de Fideicomiso de Riesgo Compartido dated November 30, 1992;

(c) "Implementation Indicators" means the implementation indicators set forth in Annex 1 to the letter from the Guarantor to the Bank of even

date with this Agreement;

(d) "INIFAP" means the Guarantor's National Institute for Forestry, Agriculture and Livestock Research (Instituto Nacional de Investigaciones Forestales y Agropecuarias);

(e) "Operating Rules" means the "Operating Mechanisms" (Mecanica Operativa) and the "Operating Rules" (Reglas de Operacion) of FIRCO, both dated October 26, 1993;

(f) "Project States" means the Guarantor's States of Chiapas, Guanajuato, Guerrero, Hidalgo, Jalisco, Mexico, Michoacan, Oaxaca, Puebla and Veracruz;

(g) "Project Unit" means the unit to be established and thereafter operated by FIRCO in accordance with the provisions of Section 3.04 of the Guarantee Agreement; and

(h) "Special Account" means the account referred to in Section 2.02(b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of eighty-five million dollars (\$85,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in Banco de Mexico on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, Page 3

the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1999 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest

Period in which this Agreement is signed.

- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Transfer of Loan Proceeds; Other Covenants

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Section 3.01. (a) The Borrower shall enter into contractual arrangements with the Guarantor, satisfactory to the Bank, providing, inter alia, for: (i) the transfer to the Guarantor of the proceeds of the Loan for the carrying out of the Project through FIRCO; and (ii) the transfer by the Guarantor to the Borrower of such funds as the Borrower shall be required to pay to the Bank on account of principal, interest and other charges on the Loan. Except as the Bank may otherwise agree, the Borrower shall not amend or fail to enforce any provision of such contractual arrangements.

(b) The Borrower shall exercise its rights under the contractual arrangements referred to in paragraph (a) above in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of the Schedule to the Guarantee Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition,

respectively) shall be carried out by, or shall caused to be carried out by, the Guarantor pursuant to Section 3.03 of the Guarantee Agreement.

Section 3.04. The Borrower shall participate in the midterm and annual reviews referred to in Section 3.08 of the Guarantee Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the resources and expenditures in connection with the execution of the Project.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, and the records and accounts for the Special Account, for each fiscal year audited, in accordance with generally accepted auditing standards and procedures consistently applied, by independent and qualified auditors;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by such auditors, of such scope and in such detail as the Bank shall have reasonably requested;
- (iii) furnish to the Bank each month certified statements of the Special Account; and
- (iv) furnish to the Bank such other information concerning said records and accounts as well as the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall provide to the Guarantor any information that may be required by the Guarantor to comply with the Guarantor's obligations under Section 4.01 (c) of the Guarantee Agreement.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that the Convenio

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Modificatorio al Contrato de Fideicomiso de Riesgo Compartido referred to in Section 1.02 (c) of this Agreement shall have been amended, suspended, abrogated or waived so as to affect, in the opinion of the Bank, materially and adversely the ability of the Guarantor to perform any of its obligations under the Guarantee Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the contractual arrangements referred to in Section 3.01 (a) of this Agreement have been executed.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the contractual arrangements referred to in Section 3.01 (a) of this

Agreement have been duly authorized or ratified by the Borrower and the Guarantor, have been duly executed by them, and are legally binding upon the Borrower and the Guarantor in accordance with their terms.

Section 6.03. The date October 17, 1994 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Director Internacional of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America
Cable address: Telex:
INTBAFRAD 197688 (TRT),
Washington, D.C. 248423 (RCA),
 64145 (WUI) or
 82987 (FTCC)

For the Borrower:

Direccion Internacional
Nacional Financiera, S.N.C.
Plaza Inn, Insurgentes Sur 1971
Torre IV, Piso 8
01020 Mexico, D.F.
Mexico
Cable address: Telex:
NAFIN NAFIME 383-1775765
Mexico City Mexico City

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as
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of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Javed Burki
Regional Vice President
Latin America and the Caribbean
NACIONAL FINANCIERA, S.N.C.

By /s/ Jose Garcia Torres
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
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(1) Works	26,100,000	80%
(2) Goods	17,100,000	80%
(3) Technical Assistance:		80%
(a) Agriculture extension services	9,800,000	
(b) Consultants' services, training and studies	7,200,000	
(c) Supervision services by FIRCO	8,700,000	
(4) Unallocated	16,100,000	
TOTAL	<u>85,000,000</u>	
	=====	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$8,500,000, may be made on account of payments made for expenditures before that date but after November 3, 1993.

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3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods not exceeding \$350,000 equivalent, under contracts for works not exceeding \$350,000 equivalent, and under contracts for consulting services not exceeding \$100,000 equivalent for firms and \$50,000 equivalent for individuals, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to raise agricultural productivity in the Project States.

The Project consists of the following parts, subject to such modifications thereof as the Borrower, the Guarantor and the Bank may agree upon from time to time to achieve such objective.

Part A: Rural Investment

1. Financing by FIRCO of:

- (a) construction, rehabilitation and extension of tubewell irrigation systems in the Project States;
- (b) construction, rehabilitation and extension of small surface irrigation and drainage systems in the Project States;
- (c) soil conservation works in the Project States; and
- (d) small agricultural investments in the Project States to intensify resource use or to transform agricultural activities into more productive ones, such as, for example, pasture establishment, plant and animal disease control, plant nursery establishment, and livestock production.

2. Supervision by FIRCO of the activities financed by it under paragraph 1 above.

Part B: Agricultural Technology Transfer

1. Financing by FIRCO of:

- (a) the provision of agricultural extension services by the private sector with respect to all rural investment operations under Part A of the Project; and

(b) validation and demonstration of new productive techniques on approximately 5,300 validation and demonstration plots in the Project States.

2. Promotion by FIRCO of soil conservation practices in the Project States, including watershed protection and on-farm soil conservation practices, and acquisition and use by FIRCO of specialized equipment for validation and demonstration of soil conservation practices.

3. Supervision by FIRCO of the activities under paragraph 1 above.

Part C: Institutional Development of FIRCO

1. Strengthening of FIRCO's investment design capacity through use of consultant services to complete approximately 1,000 investment feasibility studies.

2. Training of staff of FIRCO in areas related to the Project such as administration, infrastructure contracting management, agriculture and promotion of producers' organizations.

3. Improvement of FIRCO's information management through the acquisition and use of appropriate computer equipment for monitoring and control purposes and upgrading of FIRCO's documentation center.

4. Strengthening of FIRCO's monitoring and evaluation expertise, FIRCO's Page 8

capabilities in environmental management and integrated pest management, and FIRCO'S capabilities in livestock production through the use of consultant services.

* * *

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each April 1 and October 1 beginning April 1, 2000 through April 1, 2009	4,250,000
On October 1, 2009	4,250,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73

More than 11 years but not more than 13 years	0.87
Page 9 before maturity	
More than 13 years before maturity	1.00

SCHEDULE 4
Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further

withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

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(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

ANNEX 1

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Implementation Indicators

›See hard copy.]

Terms of Reference: Mid-term Review

OBJETIVO

Para dar cumplimiento a las condiciones establecidas en el convenio de garantías, durante el año de 1996, se llevara a cabo una evaluación del proyecto para medir sus impactos productivos, socioeconómicos y ambientales que permitan conocer el avance de su operación basado en los indicadores de desempeño que se señalan en el Anexo I de esta carta.

ALCANCES DE LA EVALUACION

La evaluación comprenderá el análisis comparativo de los ejercicios presupuestarios versus los techos financieros previstos para el proyecto; el cumplimiento de las metas asignadas a cada componente según lo establecen los indicadores de gestión; la cuantificación de los impactos productivos, socioeconómicos y los probables efectos ambientales especialmente de obras

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hidráulicas subterráneas y de proyectos forestales y ganaderos que impliquen

desmontes, así como aquellos proyectos agrícolas que involucren incrementos significativos del uso de plaguicidas.

PROCEDIMIENTOS METODOLÓGICOS

Los trabajos abarcarán la totalidad de los 10 estados prioritarios participantes en el proyecto y los análisis comparativos tomarán como base los programas operativos anuales de cada estado, los cierres operativos de los programas y los informes de resultados para evaluar los aspectos siguientes:

1. Estado del Proyecto y su Impacto Socioeconómico y Ambiental
 - (a) Alcance de metas para cada componente y su comparación con los indicadores de desempeño del Cuadro No. 1 del Anexo VIII del documento de evaluación.
 - (b) Cuantificación de los impactos productivos y análisis económico de resultados de las parcelas o módulos de transferencia de tecnología, a efecto de estimar las posibilidades de adopción por parte de los productores e incorporación de innovaciones a los paquetes tecnológicos.
 - (c) Encuestas del servicio de extensión a fin de obtener parámetros que midan el grado de aceptación y participación de los productores en la contratación del servicio.
 - (d) Evaluación de los probables efectos ambientales en el tipo de acciones e inversiones descritos en los alcances de la evaluación.
 - (e) Cuantificación de los impactos productivos de aquellas prácticas de conservación de suelos que tienen efectos directos en la productividad tales como: subsuelo, aplicación de abonos orgánicos, vara de mejoradores químicos y otras prácticas de laboreo agrícola donde sea factible la medición de sus efectos.
 - (f) Cambios en los patrones de cultivos para la búsqueda de nuevas alternativas productivas de mejor rentabilidad.
 - (g) Revisión de los procedimientos de análisis ambiental y recomendaciones para su mejor implementación.
2. Ejercicio presupuestario y estados financieros:
 - (a) Análisis comparativo de los costos anuales del proyecto con los presupuestos ejercidos para cada componente.
 - (b) Revisión y análisis del grado de cumplimiento del reembolso de gastos conforme a las condiciones establecidas en los convenios de garantías y de préstamo.
 - (c) Revisión y análisis de los procedimientos de licitación para su adecuación pertinente y simplificación si fuera el caso.
 - (d) Revisión a los estados financieros y recomendaciones para mejorar su formulación.
3. Gestión del proyecto:
 - (a) Revisión de la gestión del proyecto en general.
 - (b) Revisión de los alcances en el componente de desarrollo institucional y capacitación.
 - (c) Recomendaciones para el mejor funcionamiento del proyecto.

CONCLUSIONES Y RECOMENDACIONES

Se formulará un resumen ejecutivo donde se detallen las recomendaciones que permitan reorientar la implementación de las acciones

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del proyecto y aquellas recomendaciones que mejoren la eficiencia en la operación del proyecto, cuya incorporación previamente será acordada con el Banco durante la revisión anual que se llevará a cabo en octubre de 1996.

ANNEX 3

Page 1 of 1

Environmental Screening Process

The environmental screening process to be applied to all investment projects to be financed under the Loan (subprojects) will be done in accordance with the agreement between the National Water Commission and the Guarantor's Secretariat for Social Development (SEDESOL). This agreement includes the following key points, which shall not be changed during the course of Project implementation without the agreement of the Bank:

1. Group 1: projects in biosphere reserves. They are forbidden and FIRCO excludes all such subprojects.
2. Group 2: new subprojects and expansion of existing systems. FIRCO subprojects that require this type of screening are: (a) subprojects that include the perforation of tubewells, and (ii) irrigation projects of more than 100 hectares. Some FIRCO subprojects fall in CNA's Group 2 and require SEDESOL's explicit opinion. Most subprojects in this group require more detailed study, either an Environmental Protection Report or an Environmental Impact Study, which is usually prepared by consultants and is then forwarded to SEDESOL for its decision.
3. Group 3: subprojects for which, according to Mexican law, no environmental assessment is required because they are too small. Subprojects in this group include: (a) dams with a holding capacity of less than 500,000 cubic metres; (b) isolated water wells; (c) irrigation areas of less than 100 hectares; (d) irrigation systems that draw less than 10 % of the natural replenishment capacity of the natural water source on which they depend; and (e) rehabilitated systems for use of groundwater. For such subprojects the producers prepare a 'diagnosis of environmental impact' (diagnostico de impacto ambiental) and the relevant authority (CNA, SEDESOL or SARH) gives its clearance.
4. Virtually all subprojects are expected to fall under the Group 3 environmental selection criteria. However, all subprojects that exploit groundwater, whether in Group 2 or Group 3, require procedures to obtain the authorization of CNA for extraction of the specified volume of water before any agreement is made with FIRCO. Subprojects for groundwater extraction are forbidden in exclusion zones defined by CNA (zonas de veda).
5. Group 4: subprojects for which construction of civil works was initiated after enactment of Ley General del Equilibrio Ecologico y la Proteccion del Ambiente but that have not received an environmental ranking from SEDESOL. No subprojects fall in this group.

ANNEX 4

Page 1 of 1

Method of Economic Analysis

The Guarantee Agreement (para. 3.06 (b)) specifies that all prices for the ex-ante economic analysis are to be in world prices (i.e. import or export parity prices, depending on whether Mexico is a net importer or exporter of the commodity). It is understood that in some cases local market equivalents may be used. The choice between world price equivalents and local market prices will depend on the degree to which the product enters international markets.

A. Output prices. Import-parity prices are to be used for grains (rice, wheat, maize, sorghum, barley, and all others that are imported), oilseeds (soybean, safflower, sesame, and cottonseed) and milk and dairy products. Export-parity prices are to be used for beef and live animals, cotton, and fruits and vegetables. Local market prices can be used for products that are largely non-traded, notably pastures.

B. Input prices. Import-parity prices are to be used for fertilizers. Official rates can be used for irrigation water. Other

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agricultural chemicals and largely non-traded inputs (e.g. fencing) can be

valued at their domestic market prices. Labor can be valued at market wages prevailing in the project area. Land can be valued at rentals prevailing in the project area.

C. Transport and other intermediation costs. The calculation of transport and other intermediation costs is to be made on the basis of relevant data to be provided by ASERCA. Transport and other intermediation costs--capital, handling, storage, insurance--are to be added to world prices up to the project area for import-parity goods and subtracted from world prices beginning at the project area up to the relevant world market for export-parity goods.

D. Price and cost periods. All prices and costs will be specified in real terms in the period of analysis. Economic analysis will typically be done for a period of 10 to 20 years, depending on the type of investment. Price and cost periods will be taken as the annual average in the year preceding the date of the feasibility study, or the average price at harvest if the latter is more relevant (e.g. for some crops that have sharply seasonal harvests and strong price fluctuations in consequence).

E. Exchange rates. Exchange rates to convert world prices into pesos are to be the average of market exchange rates for the same period in which prices are calculated.

F. Producers' contributions. Producers contributions in labor to investments will be valued at prevailing local market wages for the type of work contributed. The quantity of work contributed to each task will be estimated on the basis of standard coefficients, as now applied by FIRCO. Producers' contributions in materials will be valued at their actual purchase cost.

Terms of Reference: Agricultural Extension Specialist

OBJETIVO

El proyecto prevee en los 10 estados prioritarios, el otorgamiento del servicio de extension agricola a los grupos organizados de productores elegibles para el financiamiento de las acciones de infraestructura rural y transferencia de tecnologia a fin de brindarles la asesoria tecnica que permita mejorar sus sistemas productivos y buscar alternativas de cultivos mas rentables.

ALCANCES DEL ESTUDIO

El estudio pretende mediante una revision de caracter muestral, verificar los procedimientos para la seleccion, contratacion y otorgamiento del servicio de extension agricola que reciben los grupos de productores organizados, a fin de constatar que se cuenta con un sistema agil, eficiente y de entera libertad para que los productores seleccionen y contraten al asesor tecnico que se integre mejor a los propositos de la organizacion y las finalidades de sus proyectos productivos.

PROCEDIMIENTOS DE TRABAJO

En la formulacion del estudio, el consultor especialista, debera enfocar su proceso analitico a los aspectos siguientes:

1. Seleccion muestral y al azar de 50 convenios que se celebren entre FIRCO-Productores y sus correspondientes contratos de prestacion de servicios profesionales que se firmen entre productores-asesor tecnico en cualquiera de los 10 estados prioritarios que conforman el universo de trabajo del proyecto.
2. En dichos convenios y contratos, se analizaran las condiciones y compromisos contractuales que se establecen con objeto de hacer extensivas sus recomendaciones para adecuar su presentacion y contenido y asegurar que el productor reciba la calidad de los servicios pactados y sobre todo la

asesoria tecnica requerida para los fines de su explotacion.

3. Realizar encuestas con productores en campo, para captar las necesidades adicionales de asesoria tecnica, que conlleven al otorgamiento de una asistencia tecnica de caracter integral.
4. Evaluar el grado de aceptacion de la asistencia tecnica por parte del productor y los cambios tecnologicos adoptados en sus sistemas de produccion y en el patron de cultivos.
5. Entrevistar a los asesores tecnicos para captar las necesidades de capacitacion que incrementen su experiencia profesional y los canales de comunicacion a fin de mejorar la eficiencia de sus servicios.

PRODUCTO ESPERADO

1. Se debera formular resumen ejecutivo con las conclusiones y recomendaciones que permitan incorporar las adecuaciones a realizar en los documentos de concertacion y de prestacion de servicios que mejoren el contenido y los terminos para la contratacion de los servicios de extension agricola.
2. Se detallara el mecanismo que asegure la completa libertad del productor organizado para la seleccion y contratacion de su asesor tecnico.
3. Debera contener los señalamientos especificos de las necesidades adicionales de capacitacion para mejorar y fortalecer el conocimiento o experiencia profesional de los asesores con miras a lograr una asesoria integral y una estrecha participacion con la organizacion de productores.

PROYECTO DE DESARROLLO DE AREAS DE TEMPORAL

Terminos de referencia para la evaluacion de mediano plazo del proyecto.

OBJETIVO

Para dar cumplimiento a las condiciones establecidas en el convenio de garantias, durante el ano de 1996, se llevara a cabo una evaluacion del proyecto para medir sus impactos productivos, socioeconomicos y ambientales que permitan conocer el avance de su operacion basado en los indicadores de gestion que se senalen en la table No. 1 del Anexo VIII del documento de evaluacion.

ALCANCES DE LA EVALUACION

La evaluacion comprendera el analisis comparativo de los ejercicios presupuestarios versus los techos financieros previstos para el proyecto; el cumplimiento de las metas asignadas a cada componente segun lo establecen los indicadores de gestion; la cuantificacion de los impactos productivos, socioeconomicos y los probables efectos ambientales especialmente de perforacion de pozos, zonas de riego y de proyectos forestales y ganaderos que impliquen desmontes, asi como aquellos proyectos agricolas que involucren incrementos significativos del uso de plaguicidas.

PROCEDIMIENTOS METODOLOGICOS

Los trabajos abarcaran la totalidad de los 10 estados prioritarios participantes en el proyecto y los analisis comparativos tomaran como base los programas operativos anuales de cada estado, los cierres operativos de los programas y los informes de resultados para evaluar los aspectos siguientes:

1. Estado del Proyecto
 - (a) Alcance de metas para cada componente y su composicion con los indicadores de gestion de la table No. 1 del Anexo VIII del documento de evaluacion.
 - (b) Cuantificacion de los impactos productivos y analisis economico de resultados de las parcelas modulos de transferencia de tecnologia, a efecto de estimar las posibilidades de adaptacion

los proyectos tecnologicos.

(c) Encuestas del servicio de extension a fin de obtener parametros que midan el grado de aceptacion y participacion de los productores en la contratacion del servicio.

(d) Evaluacion de los probables efectos ambientales en el tipo de acciones e inversiones descritos en los alcances de la evaluacion.

(e) Cuantificacion de los impactos productivos de aquellas practicas de conservacion de suelos que tienen efectos directos en la productividad tales como: subsuelo, aplicacion de abonos organicos, vara de mejoradores quimicos y otras practicas de laboreo agricola donde sea factible la medicion de sus efectos.

(f) Cambios en los patrones e cultivos para la busqueda de nuevas alternativas productivas de mejor rentabilidad.

2. Ejercicio presupuestario y estados financieros:

(a) Analisis comparativo de los costos anuales del proyecto con los presupuestos ejercidos para cada componente.

(b) Revision y analisis del grado de cumplimiento del reembolso de gastos conforme a las condiciones establecidas en los convenios de garantias y de prestamo.

(c) Revision y analisis de los procedimientos de licitacion para su adecuacion pertinente y simplificacion si fuera el caso.

(d) Revision a los estados financieros y recomendaciones para mejorar su formulacion.

3. Conclusiones y Recomendaciones

Se formulara un resumen ejecutivo donde se detallen las recomendaciones que permitan reorientar la implementacion de las acciones del proyecto y aquellas recomendaciones que mejoren la eficiencia en la operacion del proyecto, cuya incorporacion previamente sera acordada con el Banco durante la revision anual que se llevara a cabo en octubre de 1996.