

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7206-ME

Loan Agreement

(Integrated Irrigation Modernization Project)

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated March 28, 2004

Public Disclosure Authorized

LOAN AGREEMENT

AGREEMENT, dated March 28, 2004 between UNITED MEXICAN STATES (the Borrower) represented by its signatory on page 17 of this Agreement and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower is a signatory of the Articles of Agreement of the International Bank for Reconstruction and Development (the international treaty by which the Bank was created), which Articles of Agreement contain, *inter alia*, general provisions relating to loans extended by the Bank;

WHEREAS (B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

WHEREAS (C) the Project will be carried out, in part, by the Borrower's National Water Commission (CNA) with the Borrower's assistance;

WHEREAS (D) the Borrower is implementing through its Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food, programs to support irrigation crop technology, related to the irrigation investments included in the Project; 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 for Fixed-Spread Loans" of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this 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) “*Acuerdo SAGARPA*” means the arrangement referred to in Section 3.03 of this Agreement;

(b) “*Alianza Contigo*” means the Borrower’s agricultural production and rural development program referred to in Article 27 of the Borrower’s Law for Sustainable Rural Development published in the Official Gazette on December 7, 2001;

(c) “Approved POA” means each annual operating plan referred to in Section 3.07 (b) of this Agreement;

(d) “CNA” means *Comisión Nacional del Agua*, the Borrower’s National Water Commission established, as a deconcentrated agency, by the Borrower’s Decree published in the Official *Gazette* on January 16, 1989 which is also described in, and governed by, Chapter III of the Water Law;

(e) “CNA Managed Off-farm Irrigation Subproject” means an Off-farm Irrigation Subproject carried out by CNA;

(f) “CNA Managed On-farm Irrigation Subproject” means an On-farm Irrigation Subproject carried out by CNA;

(g) “Environmental Management Plan” means CNA’s environmental management plan for the Project (including Part B.2 of the Project) furnished by NAFIN to the Bank in letter dated October 29, 2003;

(h) “FMR” or “Financial Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(i) “Implementation Letter” means the letter of March 31, 2004 from CNA to the Bank, containing the indicators to be used in monitoring the progress of the implementation of the Project and in evaluating its results;

(j) “Irrigated Crop Technology Subproject” means a subproject consisting of a set of activities to improve crop related technology and equipment of a WU, which Subproject is eligible for financing out of the proceeds of *Alianza Contigo* in accordance with the criteria and other requirements of such program;

(k) “Integrated Irrigation Investment Plan” or “IIIP” means a plan prepared, as a precondition for the implementation of an Off-farm Irrigation Subproject, an On-farm Irrigation Subproject or an Irrigated Crop Technology Subproject, in accordance with the requirements set forth in the Operational Manual, including the terms of reference for such subproject’s preparation to ensure that both water efficiency and agricultural productivity issues are addressed in an integrated manner;

(l) “Irrigation District” means any irrigation district described in, and governed by, Title 6, Chapter II, Section 4 of the Water Law;

(m) “Irrigation Module” means an administrative unit (*Módulo de Transferencia*) established by CNA within an Irrigation District for purposes of transferring to the respective users the operation and maintenance of the irrigation and drainage infrastructure within such unit;

(n) “Irrigation Unit” means any irrigation unit described in, and governed by, Title VI Chapter II, Section III of the Water Law;

(o) “MANDATO Contract” means the agreement to be entered into between the Borrower, through SHCP and CNA, and NAFIN pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time; and such term includes all schedules to the MANDATO Contract;

(p) “NAFIN” means *Nacional Financiera, S.N.C.* a Mexican development bank serving as the Borrower’s financial agent for purposes of the Loan;

(q) “Off-farm Irrigation Subproject” means a subproject included in the IIIP, to be carried out by a WU or CNA, and consisting of a set of activities to rehabilitate and modernize off-farm irrigation and drainage, and to replace or improve machinery needed for the maintenance of such infrastructure with the objective of improving water distribution, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(r) “Official Gazette” means the Borrower’s *Diario Oficial de la Federación*;

(s) “On-farm Irrigation Subproject” means a subproject, included in the IIIP, to be carried out by a WU or CNA, and consisting of a set of activities required to improve on-farm irrigation and drainage systems and water use, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(t) “Operational Manual” means the manual referred to in Section 3.05 of this Agreement and dated November 4, 2003, as such manual may be amended from time to time by agreement between CNA and the Bank;

(u) “PCS” means the system referred to in Section 3.01 (b) of this Agreement;

(v) “SHCP” means *Secretaría de Hacienda y Crédito Público*, the Borrower’s Secretariat of Finance and Public Credit;

(w) “SAGARPA” means *Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación*, the Borrower’s Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food, the entity responsible for implementation of programs of *Alianza Contigo* for support of irrigated crop technology and Part B.2 of the Project;

(x) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(y) “SRL” means *Sociedad de Responsabilidad Limitada de Interés Público*, a company established pursuant to the Borrower’s *Ley General de Sociedades Mercantiles* dated December 28, 1933 as amended through December 24, 1996;

(z) “Subproject Implementation Agreement” means any of the agreements referred to in Section 3.01 (e) of this Agreement;

(aa) “Water Law” means the Borrower’s Law for National Waters published in the Official *Gazette* on December 10, 1997, regulating the water sector;

(bb) “Water User” or “WU” means a farmer who has been granted a water concession or a private organization with legal personality, including civil associations (*Asociaciones Civiles*) and SRLs formed or to be formed for the purpose of assuming the management and operation of an Irrigation Module, an Irrigation District and/or an Irrigation Unit;

(cc) “WU Managed Off-farm Irrigation Subproject” means an Off-farm Irrigation subproject carried out by a WU in which the WU’s contribution does not exceed 50% of the respective Subproject costs; and

(dd) “WU Managed On-farm Irrigation Subproject” means an On-farm Irrigation Subproject carried out by a WU in which the WU’s contribution does not exceed 50% of the respective Subproject costs.

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 this Agreement, an amount equal to three hundred three million thirty thousand three hundred and three Dollars (\$303,030,303), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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 (other than Part B.2 of the Project) and to be financed out of the proceeds of the Loan, and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premiums in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) The Borrower may, for the purposes of the Project, cause NAFIN to open and maintain in Dollars a special deposit account on the Borrower's behalf either:

- (i) in the Borrower's Central Bank on terms and conditions satisfactory to the Bank;
- (ii) in NAFIN on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment; or
- (iii) in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set off, seizure or attachment.

Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2009 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (a) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to, but not including, the fourth anniversary of such date; and (b) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. The *Director de Financiamientos Internacionales* of NAFIN, and any person or persons whom she or he shall designate in writing are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project, and, to this end, shall:

- (i) carry out all parts of the Project (other than Part B.2 thereof) through CNA, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, technical and environmental practices, the Environmental Management Plan and the Approved POAs;
- (ii) carry out Parts B.2 of the Project, through SAGARPA, as part of the irrigated crop technology programs of *Alianza Contigo*, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, technical and environmental practices and the Environmental Management Plan; and
- (iii) provide and cause to be provided promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall, through CNA, maintain during the implementation of the Project, a Project coordination system (PCS), with functions and responsibilities described in the Operational Manual.

(c) The Borrower shall, through SHCP and CNA, enter into a contract with NAFIN (*MANDATO* Contract), satisfactory to the Bank, whereby:

- (i) NAFIN agrees to act as financial agent of the Borrower with regard to the Loan, meaning that, *inter alia*, NAFIN agrees to represent the Borrower *vis-à-vis* the Bank for purposes of submitting Loan withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Borrower of Loan proceeds;
- (ii) CNA agrees to carry out all Parts of the Project (other than Part B.2 thereof), according to the terms of this Agreement; and
- (iii) the Borrower agrees that, through CNA (as executing agency) and SHCP, the Borrower shall cooperate fully with NAFIN to ensure that NAFIN is able to comply with all of NAFIN's obligations referred to in paragraph (c) (i) of this Section and in Sections 4.01 and 4.02 of this Agreement.

(d) The Borrower shall exercise its rights and carry out its obligations under the *MANDATO* Contract in such a manner as to protect the interests of the Bank and the Borrower to accomplish the purposes of the Loan. Except as the Bank may otherwise agree, the Borrower shall not amend or fail to enforce any provision of the *MANDATO* Contract. In case of any conflict between the terms of: (i) the *MANDATO* Contract; and (ii) those of this Agreement, the terms of this Agreement shall prevail.

(e) The Borrower shall, through CNA, enter into an agreement (*Carta Compromiso*) with each WU carrying out a WU Managed Off-farm Irrigation Subproject or a WU Managed On-farm Irrigation Subproject, under terms and conditions substantially similar to those of the model form contained in the Operational Manual (the Subproject Implementation Agreements), such agreements to provide for:

- (i) the terms under which the financial contributions will be made available to the WU to carry out the respective WU Managed Off-farm Irrigation Subproject or WU Managed On-farm Irrigation Subproject; and
- (ii) the obligation of such WU:

- (A) to carry out the WU Managed Off-farm Irrigation Subproject or the WU Managed On-farm Irrigation Subproject, and the IIP, as provided in the Loan Agreement and the Operational Manual;
- (B) to contribute part of the capital costs of the WU Managed Off-farm Irrigation Subproject or the WU Managed On-farm Irrigation Subproject, all in accordance with the requirements of the Operational Manual; and
- (C) to comply with the environmental and social requirements applicable to the WU Managed Off-farm Irrigation Subproject or the WU Managed On-farm Irrigation Subproject.

(f) The Borrower shall, through CNA: (i) exercise its rights and carry out its obligations under each of the Subproject Implementation Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, not assign, amend, abrogate, suspend, waive, terminate or fail to enforce any of the Subproject Implementation Agreements or any provision thereof.

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 Schedule 4 to this Agreement.

Section 3.03. The Borrower shall not later than March 30, 2004, through CNA and SAGARPA, make arrangements, satisfactory to the Bank (the *Acuerdo SAGARPA*), to set forth the terms of SAGARPA's cooperation in the implementation of the Project, in coordinating with CNA in the financing of Irrigated Crop Technology Subprojects included in IIPs; and in informing on the progress of such Irrigated Crop Technology Subprojects.

Section 3.04. The Borrower shall, through NAFIN, inform the Bank of any revisions to the procedural rules of *Alianza Contigo* dated April 7, 2003, as relevant for the implementation of Off-farm Irrigation Subprojects, On-farm Irrigation Subprojects and Irrigated Crop Technology Subprojects, prior to incorporation in the Operational Manual of the revisions that may accordingly be needed.

Section 3.05. The Borrower shall carry out the Project, through CNA, in accordance with an operational manual, satisfactory to the Bank, said manual to include, *inter alia*:

- (a) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement, financial management and disbursement requirements thereof);
- (b) the requirements for the preparation of IIIPs;
- (c) the criteria for the approval, implementation and monitoring of Off-farm Irrigation Subprojects and On-farm Irrigation Subprojects;
- (d) a model agreement for implementation of WU Managed Off-farm Irrigation Subprojects and WU Managed On-farm Irrigation Subprojects;
- (e) the screening procedures for implementation of works (including specific procedures for instances where the implementation of works and/or the use of the resulting infrastructure affects international waterways); and
- (f) the organization of the PCS.

In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.06. The Borrower shall, through CNA, during the execution of the Project:

- (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, and in accordance with the indicators set forth in the Implementation Letter, the carrying out of the Project (including the Irrigated Crop Technology Subprojects), and the achievement of its objective, with the assistance of SAGARPA in respect of Part B.2 of the Project;
- (b) furnish and cause to be furnished to the Bank, not later than March 31 and September 30 of each year, commencing March 31, 2004, a progress report on the execution of the Project during the six-month period immediately preceding the date of each such report, said report to be of such scope and detail as the Bank may reasonably request and to include the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section;
- (c) carry out, jointly with the Bank:

- (i) not later than May 31 and November 30 of each year, commencing May 31, 2004, reviews of the progress of the Project and the attainment of Project objective on the basis of the reports referred to in paragraph (b) of this Section; and
 - (ii) not later than December 31, 2006, in addition to the subjects mentioned in (c) (i) hereof, a review (the mid-term review) of:
(A) the appropriateness of IIPs as a mechanism for integrating investments and coordinating On-farm Irrigation Subprojects, Off-farm Irrigation Subprojects and Irrigated Crop Technology Subprojects, (B) the progress made in the transfer of Irrigation District's management, and (C) the overall effectiveness of the performance and implementation arrangements of the Project; and
- (d) after each such review, take all measures required to ensure the efficient completion of the Project and the achievement of its objective, based on the conclusions and recommendations of the said reports and reviews, and the Bank's views on the matter.

Section 3.07. The Borrower shall through CNA:

- (a) by November 30 of each year during Project implementation prepare and furnish to the Bank for comments, the proposed preliminary operating plan and budget, satisfactory to the Bank, detailing the Project (other than Part B.2 thereof) activities proposed to be carried out during the next succeeding year and the respective sources of funding therefor; and
- (b) not later than March 31 of each year furnish to the Bank the final operating plan, for such year (Approved POA).

Section 3.08. Without limitation to or restrictions upon any provision of this Agreement, the Borrower shall through CNA, under arrangements satisfactory to the Bank, cause the dams and related infrastructure works supplying waters for Off-farm Irrigation Subprojects, On-farm Irrigation Subprojects and Irrigated Crop Technology Subprojects, to be periodically inspected in accordance with sound engineering practices in order to determine whether there are any deficiencies in infrastructure works or in the quality and adequacy of maintenance or methods of operations of the same, which may endanger their safety.

Section 3.09. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

- (a) through CNA prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and
- (b) afford the Bank a reasonable opportunity to exchange views with CNA on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause NAFIN to maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) The Borrower shall cause NAFIN to:
 - (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
 - (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 (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
 - (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may 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 cause NAFIN to:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Sections 3.06 and 3.07 of this Agreement, the Borrower shall through CNA prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The Water Law shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Bank, materially and adversely the ability of the Borrower (or its agencies) to perform any of its obligations under this Agreement.

(b) The *Alianza Contigo* financing for Irrigation Crop Technology Subprojects shall have been suspended, canceled or terminated in whole or in part provided, however, that this event will not be applicable if adequate funds for Part B.2 of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(c) A WU shall have failed to comply with any of its obligations under a Subproject Implementation Agreement or shall have amended, abrogated, repealed, waived or failed to enforce any provision of said Subproject Implementation Agreement. In such a case, the Bank may, after consultation with and by notice to the Borrower, only suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account for expenditures incurred by the WU in question.

(d) NAFIN shall have failed to comply with any of its obligations under the *MANDATO* Contract.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified namely that any event specified in paragraph (a) of 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 *MANDATO* Contract has been executed on behalf of the Borrower and NAFIN.

Section 6.02. The following are specified as additional matters, 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 (by counsel to the parties to the *MANDATO* Contract) namely, that the *MANDATO* Contract has been duly authorized or ratified by the Borrower and NAFIN and is legally binding upon the Borrower and NAFIN in accordance with its terms.

Section 6.03. The date June 28, 2004 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.10 of this Agreement, the *Titular de la Unidad de Crédito Público* of SHCP 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 Borrower:

Secretaría de Hacienda y Crédito Público
Unidad de Crédito Público
Palacio Nacional
Patio Central
3er piso, oficina 3010
Colonia Centro
06000 México, D.F.
Mexico

Facsímile: 011-52-555-228-1156

With copy to CNA:

Subdirección General de Programación
Insurgentes Sur 2140 Piso 2
Col. Chimalistac
C.P. 01070
México, D.F.
Mexico

Facsimile: 011-52-555-91592467

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
Washington, D.C.

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

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

UNITED MEXICAN STATES

By /s/ José Francisco Gil Díaz

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ David de Ferranti

Regional Vice President
Latin America and the Caribbean

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Consultants' Services (other than for On-farm Irrigation Subprojects, Off-farm Irrigation Subprojects, and Irrigated Crop Technology Subprojects)	18,300,000	83%
(2) (a) WU Managed Off-farm Irrigation Subprojects and WU Managed On-farm Irrigation Subprojects	141,000,000	50% of the cost of goods, works and services under a WU Managed Off-farm Irrigation Subprojects or a WU Managed On-farm Irrigation Subproject
(b) CNA Managed Off-farm Irrigation Subprojects and CNA Managed On-farm Irrigation Subprojects	107,000,000	83% of the cost of goods, works and services under a CNA Managed Off- Farm Irrigation Subproject or a CNA Managed On-farm Irrigation Subproject
(3) Goods (other than for On-farm Irrigation Subprojects, Off-farm Irrigation Subprojects, and Irrigated Crop Technology Subprojects)	4,000,000	100% of foreign expenditures and 83% of local expenditures

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(4) Training	3,700,000	83%
(5) Front-End Fee	3,030,303	Amount due under Section 2.04 of this Agreement
(6) Unallocated	26,000,000	
(7) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
TOTAL	<u>303,030,303</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower; and

(c) the term “training” means non-consultancy expenditures incurred in connection with the provision of training, including training institution fees, logistics, materials, and the reasonable cost of travel and per diem of trainees.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$45,000,000 may be made on account of payments made for expenditures within twelve months before that date, but in no case incurred before January 1, 2003; and

(b) payments covered by Category (2) set forth in the table in paragraph 1 of this Schedule for WU Managed Off-farm Irrigation Subprojects or WU Managed On-

farm Irrigation Subprojects, unless the respective Subproject Implementation Agreement has been entered into with the respective WU.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures, all under such terms and conditions as the Bank shall specify by notice to the Borrower for:

(a) goods and consultants' services under contracts not subject to prior review in accordance with the provisions of Part D of Sections I and II of Schedule 4 to this Agreement, and

(b) training, and Off-farm Irrigation Subprojects and On-farm Irrigation Subprojects other than those in respect of which prior review of the goods, works and services contracts is required in accordance with the provisions of Part D of Sections I and II of Schedule 4 to this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in its efforts to adopt a new model to improve the competitiveness of irrigated agriculture and the efficiency of irrigation water use in Irrigation Districts and Irrigation Units.

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

Part A: Modernization and Rehabilitation of Irrigation Infrastructure in Irrigation Districts and Irrigation Units

Carrying out of CNA Managed Off-farm Irrigation Subprojects and WU Managed Off-farm Irrigation Subprojects.

Part B: Diversification and Intensification of Irrigated Agricultural Production

1. Carrying out of CNA Managed On-farm Irrigation Subprojects and WU Managed On-farm Irrigation Subprojects.
2. Carrying out of Irrigation Crop Technology Subprojects.

Part C: Institutional Development of WUs

1. Strengthening of the Water Users' technical, managerial and financial capabilities to administer and operate their respective irrigation systems as well as to participate in the decision making process regarding investment financing including, *inter alia*:

(a) Training of directors, managers and staff of WUs at the Irrigation Module, Irrigation District and Irrigation Unit level.

(b) Preparation of Integrated Irrigation Investment Plans for Irrigation Districts and Irrigation Units.

(c) Provision of office, information technology, agro-meteorological, and water consumption monitoring equipment.

2. Carrying out of field visits to promote an exchange of experiences between WUs.
3. (a) Participatory assessment of WU-specific managerial, technical and other capacity strengthening needs.

(b) Training of farmers in areas identified in the assessment in Part C. 3 (a) above.

Part D: Executing Agencies' Training and Institutional Strengthening

1. Training of: (a) CNA's; and (b) SAGARPA's staff, including training of trainers on specific management subjects, and on other subjects acceptable to the Bank.
2. Upgrading of CNA's geographical information system to cover the total irrigated area of the Borrower's territory constituting Irrigation Districts and Irrigation Units, including an assessment of their information needs, system design and development, design of mechanisms to update data, and operation of the geographical system in priority geographical areas.
3. Carrying out of studies for the improvement of the water efficiency and management in Irrigation Districts and Units, and the development of water management policies related thereto.
4. Provision of office and information technology equipment for CNA.

Part E: Project Management

Operation of the PCS and carrying out of the audits referred to in Section 4.01 of this Agreement and Project monitoring and evaluation.

* * *

The Project is expected to be completed by March 31, 2009.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
On each May 15 and November 15 Beginning May 15, 2009 through November 15, 2018	5%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second

Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of subparagraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such subparagraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for works and goods shall be grouped in bid packages estimated to cost, respectively, \$10,000,000 and \$500,000 equivalent or more each.

(b) Two-stage Bidding Procedure

The bidding procedure for state-of-the-art equipment shall be carried out in two stages in accordance with the provisions of paragraph 2.6 of the Guidelines.

(c) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(d) Notification and Advertising

The invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines and in the Borrower's *Diario Oficial de la Federación* and *COMPRANET*.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000,000 equivalent; and

(b) goods (other than for WU Managed Off-farm Irrigation Subprojects and WU Managed On-farm Irrigation Subprojects) estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent,

may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, using standard bidding documents satisfactory to the Bank.

2. International or National Shopping

Goods (other than for WU Managed Off-farm Irrigation Subprojects and WU Managed On-farm Irrigation Subprojects) estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of international/national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$120,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. Commercial Practices

Goods for WU Managed Off-farm Irrigation Subprojects and WU Managed On-farm Irrigation Subprojects estimated to cost less than \$500,000 equivalent per contract, may be procured in accordance with commercial practices of the WU, acceptable to the Bank, and described in the Operational Manual.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, or in any case not later than November 30 each year, or such later date as the Bank may agree, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract:

(a) procured in accordance with the procedures referred to in Part B.1 of this Schedule; and

(b) for works estimated to cost the equivalent of \$3,000,000 or more,

the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(c) With respect to the first two contracts for works for Off-farm Irrigation Subprojects and On-farm Irrigation Subprojects estimated to cost less than the equivalent of \$3,000,000 to be procured in each State, the following procedures shall apply:

(i) prior to the execution of any such contract, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

- (ii) prior to the execution of any such contract, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Services for the preparation of IIIPs and for the studies to be carried out under Part D.3 of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Least-cost Selection

Services for the audits referred to in Section 4.01 of this Agreement, the upgrading of the geographical information system referred to in Part D.2 of the Project and simple hydrological and soil studies may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Commercial Practices

Services for WU Managed Off-Farm Irrigation Subprojects and WU Managed On-farm Irrigation Subprojects estimated to cost less than \$50,000 equivalent may be procured in accordance with commercial practices, acceptable to the Bank, and described in the Operational Manual.

4. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines and not exceeding \$3,000,000 equivalent in the aggregate shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 12 months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in

accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, and terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (4) 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, works 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 the amount of \$30,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$15,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed \$50,000,000.
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 deposit into the Special Account of an amount or amounts 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 into 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;

- (b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, 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.