

CONFORMED COPY

LOAN NUMBER 2837 ME

Loan Agreement

(Ninth Agricultural Credit Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

NACIONAL FINANCIERA, S.N.C.

Dated July 31, 1987

LOAN NUMBER 2837 ME

LOAN AGREEMENT

AGREEMENT, dated July 31, 1987, between  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
(the Bank) and NACIONAL FINANCIERA, S.N.C. (the  
Borrower).

WHEREAS (A) The UNITED MEXICAN STATES  
(hereinafter the "Guarantor") has undertaken to carry out  
the Financing Plan (as hereinafter defined), has declared  
its commitment to implement the Financing Plan and has  
requested the assistance of the Bank in support of the  
same;

(B) the Guarantor and the Borrower, having been  
satisfied as to the feasibility and priority of the  
Project described in Schedule 3 to this Agreement, have  
requested the Bank to assist in the financing of the  
Project;

(C) 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;

(D) by the Banxico Project Agreement of even date herewith, between the Bank and Banco de Mexico (Banxico), the latter has agreed to undertake the obligations set forth in the Banxico Project Agreement; and

(E) by the Banrural Project Agreement of even date herewith, between the Bank and Banco Nacional de Credito Rural (Banrural), the latter has agreed to undertake the obligations set forth in the Banrural Project Agreement; and

WHEREAS the Bank has agreed on the basis, inter alia, of the foregoing and in support of the Financing Plan and the Project, to provide such assistance by extending 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, (the General Conditions) constitute an integral part of this Agreement with the modification that the last sentence of Section 3.02 is deleted.

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

(b) "Financing Plan" means the 1986-87 Commercial Bank Financing Package for Mexico, as set forth in the Guarantor's Economic Program of Growth-Oriented Adjustment and Structural Reform, dated October 16, 1986, distributed to commercial banks;

(c) "Banxico" means Banco de Mexico, acting as trustee for FIRA (hereinafter defined);

(d) "Banrural" means Banco Nacional de Credito Rural, acting as trustee for FICART (hereinafter defined);

(e) "FONDO Trust Agreement" means the Contrato de Fideicomiso dated June 24, 1955, between the Guarantor and Banxico whereby the Fondo de Garantia y Fomento para la Agricultura, Ganaderia y Avicultura (FONDO) was entrusted To Banxico, as trustee;

(f) "FEFA Trust Agreement" means the Contrato de Fideicomiso dated August 26, 1965, between the Guarantor and Banxico whereby the Fondo Especial para Financiamientos Agropecuarios (FEFA) was entrusted to Banxico, as trustee;

(g) "FEGA Trust Agreement" means the Contrato de Fideicomiso dated October 30, 1972 between the Guarantor

and Banxico, whereby the Fondo Especial de Asistencia Tecnica y Garantia para Creditos Agropecuarios (FEGA) was entrusted to Banxico, as trustee;

(h) "FIRA" means collectively FONDO, FEFA and FEGA, and the technical and administrative organization, resources, staff and facilities used, or to be used, by Banxico to operate, as trustee, FONDO, FEFA and FEGA;

(i) "FICART" means the Contrato de Fideicomiso dated February 11, 1970, entered into between the Guarantor and Banrural, as amended on June 4, 1981, whereby the Fideicomiso para Credito en Areas de Riego y Temporal was entrusted to Banrural as trustee, and the term includes the technical and administrative organization resources, staff and facilities used, or to be used, by Banrural to operate FICART as trustee;

(j) "Banxico Project Agreement" means the agreement between the Bank and Banxico of even date herewith, as such agreement may be amended from time to time;

(k) "Banrural Project Agreement" means the agreement between the Bank and Banrural of even date herewith, as such agreement may be amended from time to time;

(l) "Project Agreements" means collectively the Banxico and Banrural Project Agreements;

(m) "Participating Banks" means any credit institution eligible to participate in the carrying out of the Project as financial intermediaries;

(n) "Beneficiary" means a person or a group of persons or an entity having juridical capacity under the laws of the Guarantor to enter into contractual arrangements, who are predominantly engaged in agricultural activities and to which a Participating Bank proposes to make or has made a Sub-loan (hereinafter defined); the term "Beneficiary" includes the following categories of Beneficiaries:

- (i) Category I Beneficiary - means an individual beneficiary whose main source of income is derived from farming and whose annual net family income does not exceed 1,000 times the daily minimum rural wage for the region where such Beneficiary is located, or a group of such Beneficiaries; and
- (ii) Category 2 Beneficiary - means all other Beneficiaries.

For the purpose of this definition, "net family income" means the income of a family calculated by adding the total income of all members of such family from its farm, or its share in the income of a farm cultivated collectively, and any other income from any outside source, whenever information about such income can be obtained. For this purpose, income from farming will be calculated as follows: the amount of sales of products, adjusted for the value of changes in the stock of unsold products, less costs of all inputs (seeds, fertilizers, insecticides, fuel, water, etc.), hired labor, hired machinery, crop insurance, interest on short- and long-term loans, administration and depreciation;

(o) "Sub-loan" means a loan made, or proposed to be made, by a Participating Bank to a Beneficiary for a Sub-project (hereinafter defined) pursuant to the

provisions of the Project Agreements, and to be partially financed out of the proceeds of the Loan; "Medium-and Long-term Sub-loan" means a Sub-loan made, or proposed to be made, under the terms and conditions specified in Part I of each of the Schedules to the Project Agreements; "Short-term Sub-loan" means a Sub-loan made or proposed to be made, under the terms and conditions specified in Part II of the Schedules to the Project Agreements;

(p) "Sub-project" means a project carried out or to be carried out by a Beneficiary including one or more of the following: (i) on-farm investment for crop or livestock production or production improvement; (ii) investments for the establishment or expansion or improvement of primary processing agro-industries, including, inter alia, sawmills, feedmills, grain elevators, milk processing plants, slaughterhouse facilities and fisheries; and (iii) provision of working capital to support the carrying out of the Beneficiary's activities;

(q) "FIRA Lending Policies and Operating Manual" means the Manual de Operacion of FIRA as of the date of this Agreement;

(r) "FICART Lending Policies and Operating Manual" means the Manual de Operacion of FICART as of the date of this Agreement;

(s) "General Interest Rate Agreement" means the General Agreement on Interest Rates Applicable to Credit Operations of Fondos de Fomento financed by the International Bank for Reconstruction and Development, entered into between the Guarantor and the Bank, dated August 7, 1984, as amended;

(t) "PVP" means Sistema de Pagos a Valor Presente (Present Value Payment System), a repayment system in which the interest on a loan is calculated and paid in respect of each principal repayment installment as from the date the loan is made up to date of repayment of each such principal installment; and

(u) "Prior Project" means the Project described in Schedule 1 to the Project Agreement dated September 26, 1985, between the Bank and Banxico, partially financed out of the proceeds of Loan No. 2610 ME made by the Bank to the Borrower under the Loan Agreement of even date therewith.

## 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, an amount in various currencies equivalent to four hundred million dollars (\$400,000,000).

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, as such Schedule may be amended from time to time by agreement between the Bank and the Borrower for expenditures made or, if the Bank shall so agree, to be made in respect of the reasonable cost of goods and services required for the Project described in Schedule 3 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 Account on terms and conditions satisfactory to the Bank. 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 June 30, 1991 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 percent ( $3/4$  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 per annum for each Interest Period equal to one-half percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

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

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on April 15 and October 15 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 2 to this Agreement.

### ARTICLE III

#### Transfer of Loan Proceeds

Section 3.01. The Borrower shall enter into contractual arrangements, satisfactory to the Bank, with the Guarantor providing for, inter alia: (a) the transfer to the Guarantor of the proceeds of the Loan; (b) the transfer by the Guarantor to FIRA of such portion of the proceeds of the Loan as shall be required by FIRA for purposes of carrying out Parts A, C (i), D (i) and F of

the Project; (c) the transfer by the Guarantor to FICART of such portion of the proceeds of the Loan as shall be required by FICART for purposes of carrying out Parts B, C (ii) and D (ii) of the Project; and (d) the transfer by the Guarantor to the Borrower of such funds which 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 shall otherwise agree, the Borrower shall not change, or fail to enforce, any provision of such contractual arrangements.

#### ARTICLE IV

##### Particular Covenants

Section 4.01. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts C, D and F of 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 4.02. 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) shall be carried out: in respect of Parts A, C (i), D (i) and F of the Project by Banxico, pursuant to Section 2.05 of the Banxico Project Agreements; in respect of Parts B, C (ii) and D (ii) of the Project by Banrural pursuant to Section 2.05 of the Banrural Project Agreement.

Section 4.03. The Borrower shall:

- (i) have the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles 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: (A) a certified copy of such account for such year as so audited and (B) the report of such audit by said 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 account, as well as the audit thereof, as the Bank shall from time to time reasonably request.

#### ARTICLE V

##### Remedies of the Bank

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

- (a) Banxico shall have failed to perform any of its

obligations under the Banxico Project Agreement;

(b) Banrural shall have failed to perform any of its obligations under the Banrural Project Agreement;

(c) a change shall have been made in the FONDO Trust Agreement, the FEFA Trust Agreement, the FEFA Trust Agreement, or the FICART Trust Agreement, which would materially and adversely affect the carrying out of the Project;

(d) a resolution shall have been passed for the dissolution or liquidation of FONDO, FEFA, FEFA or FICART;

(e) a change shall have been made in either the FIRA or the FICART Lending Policies and Operating Manual which would materially and adversely affect the carrying out of the Project; and

(f) an event shall have occurred which would materially and adversely affect the carrying out of the Financing Plan.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraphs (a) or (b) of Section 5.01 of this Agreement shall have occurred and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, the Guarantor, and when appropriate, to Banxico or Banrural; and

(b) any event specified in paragraphs (c) or (d) of Section 5.01 of this Agreement shall occur.

## ARTICLE VI

### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions 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 of this Agreement and Section 2.02 (a) of the Guarantee Agreement shall have been executed.

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:

(a) that the Banxico Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, Banxico, and is legally binding upon Banxico in accordance with its terms;

(b) that the Banrural Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, Banrural, and is legally binding upon Banrural in accordance with its terms; and

(c) that the contractual arrangements referred to in Section 3.01 of this Agreement and Section 2.02 (a) of the Guarantee Agreement have been duly executed and delivered on behalf of the parties thereto and are

legally binding upon them in accordance with their respective terms.

Section 6.03. The date October 29, 1987, 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 Washington, D.C.	440098 (ITT) 248423 (RCA) or 64145 (WUI)

For the Borrower:

Direccion Internacional  
Nacional Financiera, S.N.C.  
Plaza NAFINSA  
Insurgentes Sur 1971  
Torre Sur 90 Piso  
CP 01020 Mexico, D.F.  
Mexico

Cable address:	Telex:
NAFIN Mexico City	NAFIME 1772877 or NAFIME 1772809

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 of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shahid Husain  
Regional Vice President  
Latin America and the Caribbean

NACIONAL FINANCIERA, S.N.C.



By /s/ Ernesto Marcos Giacomani  
 Authorized Representative

SCHEDULE I

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 expenditure for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Medium-and Long-Term Sub-loans made by Banxico under Part A of the Project:		)
(i) to Category 1 Beneficiaries	83,700,000	)
(ii) to Category 2 Beneficiaries	138,100,000	)
(2) Medium-and Long-Term Sub-loans made under PVP by Banxico under Part A of the Project:		)
(i) to Category 1 Beneficiaries	7,000,000	) 60% of disbursements made by Banxico for Sub-loans made by Participating Banks
(ii) to Category 2 Beneficiaries	11,700	)
(3) Short-term Sub-Loans made by Banxico under Part A of the Project:		)
(i) to Category 1 Beneficiaries	16,000,000	)
(ii) to Category 2 Beneficiaries	16,000,000	)
(4) Civil works and equipment under Part C (i) of the Project	2,000,000	) 100% of foreign expenditures and
(5) Civil works and equipment under Part F of the Project	3,000,000	) 50% of local expenditures
(6) Consultants' services and training under Parts C (i) and D (i) of the Project	2,500,000	) 100% of expenditures for consultants' services; 100% of foreign expenditures and 80% of local expenditures for training
(7) Medium-and Long-term Sub-loans made by		)

	by Banrural under the Project:		)
			)
	(i) to Category 1 Beneficiaries	53,800,000	)
			)
	(ii) to Category 2 Beneficiaries	13,450,000	) 60% of disburse-
			) ments made by
			) Banrural for Sub-
(8)	Medium-and Long-Term Sub-loans under PVP made by Banrural under Part B of the Project		) loans made by
			) Participating
			) Banks
			)
	(i) to Category 1 Beneficiaries	5,000,000	)
			)
	(ii) to Category 2 Beneficiaries	1,250,000	)
			)
(9)	Short-term Sub-loans made by Banrural under Part B of the Project:		) 60% of disburse-
			) ments made by
			) Banrural for Sub-
	(i) to Category 1 Beneficiaries	4,000,000	) loans made by
			) Participating
			) Banks
	(ii) to Category 2 Beneficiaries	1,000,000	)
			)
(10)	Civil Works and equipment under Part C (ii) of the Project	750,000	) 100% of foreign
			) expenditures and
			) 50% of local
			) expenditures
(11)	Consultants' services and training under Parts C (ii) and D (ii) of the Project	750,000	) 100% of expendi-
			) tures for
			) consultants'
			) services; 100% of
			) foreign expendi-
			) tures and 80% of
			) local expenditures
			) for training
(12)	Unallocated	40,000,000	
	TOTAL	\$400,000,000	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

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 the equivalent of \$40,000,000, may be made in respect of Categories (1), (2), (3), (6), (7), (8), (9) and (11) on account of payments made before that date but after January 1, 1987;

(b) disbursements made by Banxico or Banrural to Participating Banks to finance any Sub-loan which exceeds, or shall exceed, the equivalent of eight hundred thousand dollars (\$800,000), unless such Sub-loan shall have been approved by the Bank;

(c) disbursements made by Banxico or Banrural to Participating Banks with respect to Categories 3 and 9, respectively, unless the Bank shall have been provided with evidence satisfactory to the Bank that such Short-term Sub-loans will be incremental to loans made in the previous year by Participating Banks and financed by Banxico or Banrural;

(d) disbursements made by Banxico or Banrural to Participating Banks to finance Sub-loans during any six-month period of time, unless the Bank has received the evidence referred to in Section 2.02 of the General Interest Rate Agreement for said time period with respect to Category II of the table set forth in Schedule I to said Agreement, as amended, except as the Bank shall otherwise agree; and

(e) expenditures under Part F of the Project, unless the Bank shall have been satisfied with the plans, specifications, location, proposed contract packaging and economic feasibility study, with respect to the office building.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each April 15 and October 15 beginning October 15, 1990 through October 15, 2001	16,665,000
On April 15, 2002	16,705,000

\* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (ex-pressed as a percentage per annum) applicable to the balance outstanding on 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 eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
more than thirteen years before maturity	1.00

### SCHEDULE 3

#### Description of the Project

The objectives of the project are to: (i) increase agricultural productivity and production in the territory of the Guarantor, thereby creating conditions to increase exports, improve food self-sufficiency and increase farm income; and (ii) continue to strengthen the institutional capabilities and financial condition of FIRA and FICART. The Project consists of the following Parts:

#### Part A: Credit through FIRA

Financing of Sub-projects through the provision of Short term Sub-loans, and Medium-and Long-term Sub-loans.

#### Part B: Credit through FICART

Financing of Sub-projects through the provision of Short-term Sub-loans, and Medium-and Long-term Sub-loans.

#### Part C: Technical Assistance

- (i) Expansion of FIRA's technical assistance program to promote the adoption of new and improved technology by farmers, including technical assistance to production units, construction and equipping of demonstration centers, land improvement and development, crop and forage establishment, acquisition and utilization of agricultural machinery, vehicles, equipment, and livestock.
- (ii) Expansion of FICART's technical assistance program to promote the adoption of new and improved technology by farmers, including technical assistance to production units, construction and equipping of demonstration centers, land improvement and development, crop and forage establishment, acquisition and utilization of agricultural machinery, vehicles, equipment, and livestock.

#### Part D: Support Services

- (i) Training of FIRA's technical staff, including fellowships, overseas training, and scholarships for postgraduate degrees and

strengthening of FIRA's planning, programming, project-monitoring and evaluation capabilities, in addition to training the corresponding technical staff of Participating Banks and production units.

- (ii) Training of FICART's technical staff, including fellowships, overseas training, and scholarships for postgraduate degrees and strengthening of FICART's planning, programming, project-monitoring and evaluation capabilities, in addition to training the corresponding technical staff of Participating Banks and production units.

Part E: Agricultural Financial Subsector Study

The carrying out of a study of the agricultural financial subsector in Mexico.

Part F: Office Building

The construction and equipping of FIRA's headquarters office building in a farming region.

SCHEDULE 4

Procurement and Consultants' Services  
under Parts C, D and F of the Project

Section I: Procurement of Goods and Works

Part A: Limited International Bidding

Civil works and equipment under Parts C and F of the Project estimated to cost the equivalent of \$100,000 or more may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers, one of which shall be from a country other than the Guarantor, all eligible under the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines) and in accordance with the procedures set forth in Section I and II of the Guidelines (excluding paragraphs 2.8, 2.99 2.55 and 2.56 thereof).

Part B: Local Competitive Bidding

Civil works and equipment under Part C of the Project, and civil works and equipment under Part F of the Project estimated to cost the equivalent of less than \$100,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures acceptable to the Bank.

Part C: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods and civil works estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior

to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix I to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to the Loan Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of each of the Project Agreements.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix I to the Guidelines.

## Section II: Employment of Consultants

In order to assist Banxico and Banrural in carrying out the Project, Banxico and Banrural shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

## SCHEDULE 5

### Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means the Categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement, except Category (12), and the term "Category" means any one of the Eligible Categories;

(b) the term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required for carrying out 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, and in the percentages provided in, Schedule 1 to this Agreement; and

(c) the term "Initial Deposit" means an amount equivalent to forty million dollars (\$40,000,000) to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 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. The Borrower shall make withdrawals from the Special Account for payments of Eligible Expenditures on the basis of the evidence that the Bank shall have reasonably determined, and shall debit the Special Account with the amount in dollars so withdrawn or with the dollar equivalent of the

currency other than dollars in which the payment was made, determined on the basis of the rate of exchange between the dollar and such currency in effect: (i) on the date of each payment, if the withdrawal from the Special Account in respect of such payment has been made within 90 days of the date of the payment, or in the case of Sub-loans under Parts A and B of the Project requiring prior approval by the Bank, within 90 days of the date on which the Bank has issued its approval of each such Sub-loan; or (ii) on the date each withdrawal shall have been made.

3. The Bank may, at the request of the Borrower, withdraw on behalf of the Borrower from the Loan Account and deposit into the Special Account the Initial Deposit. Thereafter, and on the basis of requests by the Borrower furnished to the Bank at such intervals as the Bank shall specify, the Bank shall further so withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account for Eligible Expenditures, but only to the extent that the amount of any such deposit, together with any amount remaining on deposit in the Special Account as of the date of such request, shall not exceed, in the aggregate, the equivalent of the Initial Deposit. Except as the Bank may otherwise agree, each such deposit after the Initial Deposit 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. Prior to or at the time of each request by the Borrower for a deposit by the Bank into the Special Account after the initial deposit, the Borrower shall furnish to the Bank in respect of each payment made by the Borrower out of the Special Account such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for Eligible Expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, when the total unwithdrawn amount of the Loan allocated to the Categories, minus the amount of any outstanding qualified agreement to reimburse made by the Bank and any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall be equal to the equivalent of twice the amount of the Initial Deposit, the Bank shall be entitled, after consultation with the Borrower, to reduce the percentage of disbursements for Eligible Expenditures or take any other action which will ensure the Bank that by the time of disbursement of the total amount of the proceeds of the Loan, all deposits (including the Initial Deposit made by the Bank into the Special Account) were made for Eligible Expenditures.

6. (a) If the Bank shall have determined that any payment out of the Special Account: (i) was made for any expenditure or in any amount not eligible for financing by withdrawal from the Loan Account; or (ii) was not justified by the documentation furnished pursuant to paragraph (4) above, the Bank shall notify the Borrower of such circumstances, and if, after a period of 30 days from the issuance of such notice, an amount equal to the amount of such payment or the portion thereof not so eligible or justified has not been deposited by the Borrower into the Special Account or, if the Bank shall so request, refunded to the Bank, the Bank may, without in any way restricting or limiting any other right, power or remedy of the Bank under the Loan Agreement, refrain

from making further deposits into such Account.

(b) If 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, and unless otherwise agreed by the Bank, refund to the Bank such amount then outstanding in the Special Account for crediting to the Loan Account and immediate cancellation.

