

CONFORMED COPY

LOAN NUMBER 2859 ME

(Agricultural Extension Project, PROCATI)

between

UNITED MEXICAN STATES

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated July 31, 1987

LOAN NUMBER 2859 ME

GUARANTEE AGREEMENT

AGREEMENT, dated July 31, 1987, between UNITED MEXICAN STATES (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and NACIONAL FINANCIERA, S.N.C. (the Borrower), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project; and

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to twenty million dollars (\$20,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as provided in this Agreement; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

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), with the modifications set forth in Section 1.01 of the Loan Agreement, 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 and Section 1.02 of the Loan Agreement have the respective meanings therein set forth.

#### ARTICLE II

##### Guarantee; Provision of Funds

Section 2.01. Without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not merely as surety, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

Section 2.02. The Guarantor shall enter into the contractual arrangements with the Borrower referred to in Section 3.01 of the Loan Agreement and, unless the Bank shall otherwise agree, shall not change or fail to enforce any of the provisions of such contractual arrangements.

#### ARTICLE III

##### Execution of the Project

Section 3.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement and to this end, shall carry out the Project through SARH, all with due diligence, efficiency and in conformity with appropriate administrative, financial and agricultural practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. The Bank and the Guarantor 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 respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project shall be carried out by the Guarantor.

Section 3.03. Except as the Bank shall otherwise agree, procurement of goods, works and consultants' services required for the Project and to be financed from the proceeds of the Loan, shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 3.04. The Guarantor shall cause the facilities included in the Project to be operated, maintained and repaired in accordance with sound engineering, agricultural, technical, financial and administrative practices.

Section 3.05. The Guarantor shall:

(a) carry out the feasibility studies described under Part E.2 of the Project, under terms of reference satisfactory to the Bank, with respect to eight rural development districts in

the Project Area by November 30, 1987 and with respect to ten additional rural development districts in the Project Area by September 30, 1988;

(b) discuss the results of such studies with the Bank;

(c) propose, by December 31, 1987, about eight districts, acceptable to the Bank, for inclusion in the Project as Eligible Districts, and by November 30, 1988, about ten additional districts, acceptable to the Bank, for inclusion in the Project as Eligible Districts; and

(d) carry out the Project in the Eligible Districts accepted by the Bank.

Section 3.06. The Guarantor shall design an Institutional and Manpower Development Program, acceptable to the Bank, for the Eligible Districts and implement such Program in each Eligible District thereafter.

Section 3.07. The Guarantor shall:

(a) maintain, through completion of the Project, a Programming Unit within each Eligible District for purposes of monitoring, evaluating and supervising the carrying out of the Project in the relevant Eligible District;

(b) cause Chapingo to monitor and evaluate the application of technical packages and the impact of extension services strategies in the Eligible Districts; and

(c) without limitation upon any of the reporting provisions set forth in Section 9.07 of the General Conditions and in this Agreement, cause the Programming Units and Chapingo to provide semiannual reports on the progress of implementing the Project and the technical packages in each Eligible District to SARH and the Bank.

Section 3.08. The Guarantor shall: (a) test cost-sharing mechanisms for purposes of providing appropriate options for cost-recovery for extension services; and (b) initiate and complete, by the Closing Date of the Project, a program to transfer about half of the cost of salaries of extension services staff located in the Eligible Districts in the irrigated northwest section of the Project Area to farmers' cooperatives and other groups that receive extension services.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Guarantor shall maintain, or cause to be maintained, separate records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Project of the departments or agencies of the Guarantor responsible for carrying out the Project or any part thereof.

(b) The Guarantor shall:

(i) have the accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with generally accepted auditing standards and procedures consistently applied, by independent and qualified auditors;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said accounts and the audit thereof and said records as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Guarantor shall:

- (i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;
- (ii) retain, or cause to be retained, until at least one year after the Bank has received the audit report for 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;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such separate accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report thereof contains, in respect of such separate accounts, a separate opinion by said auditors as to whether the proceeds of the Loan withdrawn in respect of such expenditures were used for the purposes for which they were provided.

#### ARTICLE V

##### Representative of the Guarantor; Addresses

Section 5.01. The Director General de Credito Publico of the Secretaria de Hacienda y Credito Publico is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Direccion General de Credito Publico  
Secretaria de Hacienda y Credito Publico  
Palacio Nacional  
Edificio 10, P.B.  
06066 Mexico, D.F.  
Mexico

Telex:

1777313-SHDCME

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)

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.

UNITED MEXICAN STATES

By /s/ Ernesto Marcos Giacoman  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

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

