

LOAN NUMBER 2918 ME

Loan Agreement

(Agricultural Sector Loan)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

NACIONAL FINANCIERA, S.N.C.

Dated March 15, 1988

LOAN NUMBER 2918 ME

LOAN AGREEMENT

AGREEMENT, dated March 15, 1988, between
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(the Bank) and NACIONAL FINANCIERA, S.N.C. (the
Borrower).

WHEREAS (A) the Bank has received a letter dated
February 25, 1988 (the Agricultural Sector Policy
Letter), from the UNITED MEXICAN STATES (the Guarantor)
describing a program of actions, objectives and policies
designed to promote greater efficiency and higher
productivity in the Guarantor's agricultural and
agro-industrial sectors (hereinafter called the Program),
declaring the Guarantor's commitment to the execution of
the Program, and requesting assistance from the Bank in
the financing of imported goods required during such
execution;

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

(C) on the basis, inter alia, of the foregoing, the Bank has decided, in support of the Program, to provide such assistance to the Guarantor by making the Loan to the Borrower in tranches as hereinafter provided;

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 thereof set forth below constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted; and

(b) Section 9.07 (c) is modified to read:

"(c) Not later than six months after the Closing Date such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower and the Guarantor shall prepare and furnish to the Bank a joint report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program referred to in the Preamble to the Loan Agreement, the carrying out of the Project, the performance by the Guarantor, the Borrower and the Bank of their respective obligations under the Loan and Guarantee Agreements and the accomplishment of the purposes of the Loan."

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

(a) "SARH" means the Secretariat of Agriculture and Water Resources (Secretariat de Agricultura y Recursos Hidraulicos) of the Guarantor;

(b) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series, No. 341 Rev. 3 (1986);

(c) "tortibonos" means food coupons redeemable in tortillas, established by ministerial regulations, distributed as part of one of the Guarantor's food assistance programs to low-income populations;

(d) "ORB" means quantitative restrictions placed by the Guarantor on imported goods and materials;

(e) Official Reference Prices means the reference prices for imported goods and materials published by the Guarantor;

(f) "Non-tariff Barriers" means any form of restriction, other than the levy of a tariff, on imports, including, inter alia, ORB and restrictions by means of Official Reference Prices and import permits;

(g) "Pacto de Solidaridad Economica" means the Economic Solidarity Pact signed on December 15, 1987 by the Guarantor, representatives of farmer and labor organizations, and the private sector establishing a system for setting and maintaining prices of certain products and commodities; and

(h) "Fiscal Year" means the fiscal year of the Guarantor, beginning of January 1 of each year.

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 in various currencies equivalent to three hundred million dollars (\$300,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1989 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one half per cent 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 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 June 15 and December 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 3 to this Agreement.

ARTICLE III

Transfer of Loan Proceeds; Other Covenants

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

Section 3.02. The Borrower and the Guarantor pursuant to Section 3.01 of the Guarantee Agreement, shall quarterly, and at the request of either party, exchange views with the Bank on the progress achieved in carrying out the Program, the Project and the actions specified in the Schedule to the Guarantee Agreement.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Loan shall be governed by the provisions of schedule 4 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, separate records and accounts adequate to reflect, in accordance with consistently maintained sound accounting practices, the expenditures financed out of the proceeds of the Loan.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section 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 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 as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;
- (ii) retain, 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 or 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 audits referred to in paragraph (b) of this Section and that the report thereof contain, 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

Remedies

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that a situation has occurred which shall make it improbable that the Program, or a significant part thereof, will be carried out.

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:

(a) that the contractual arrangements referred to in Section 3.01 of this Agreement shall have been executed; and

(b) that the Guarantor shall have provided to the Bank evidence that its macro-economic policy framework is consistent with the Program.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the contractual arrangements referred to in Section 3.01 of this Agreement have been executed and delivered on behalf of the parties thereto and are legally binding upon them in accordance with their terms.

Section 6.03. The date June 14, 1988, 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 Borrower:

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

Cable address:

NAFIN
Mexico City

Telex:

NAFIME 1775765
1775629
Mexico City

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTABRAFD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused the 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/ Eduardo Amezcua Lagunas
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Loan may be withdrawn from the Loan Account for expenditures made or, if the Bank shall so agree, to be made, in respect of the reasonable cost of imported goods required during the execution of the Program and to be financed out of such proceeds.

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

(a) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the borrower:

Group	Sub-group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured tobacco refuse
122	-	Tobacco, manufactures (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
-	971.0	Gold, non-monetary (excluding gold ores and concentrates)

(b) payments made for expenditures for goods prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$60,000,000, may be made on account of payments made for expenditures before that date but after November 22, 1987;

(c) expenditures in the currency of the Guarantor or for goods supplied from the territory of the Guarantor;

(d) expenditures for goods procured under contracts costing less than the equivalent of \$10,000;

(e) expenditures for goods supplied under a contract which any national or international financing institution or agency shall have financed or agreed to finance;

(f) expenditures for goods intended for a military or para-military purpose, or for luxury consumption;

(g) expenditures for goods the importation of which is subject to Non-tariff Barriers in Mexico; and the Bank.

(h) expenditures for pesticides which are not acceptable to

3. No withdrawal shall be made and no commitment shall be entered into to pay amounts to, or on the order of, the Borrower in respect of expenditures to be financed out of the proceeds of the Loan:

(a) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments shall have reached the equivalent of \$25,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.02 of this Agreement based on evidence satisfactory to the Bank that:

(i) the Guarantor shall have removed export controls on high-quality rice and quality cuts of beef except as required by hygienic reasons;

(ii) the Guarantor shall have provided to the Bank terms of reference satisfactory to the Bank for carrying out the studies described in paragraphs (b), (c) and (d) of Part B of the Project; and

(iii) the Borrower shall have provided to the Bank procedures, satisfactory to the Bank, for coordinating the payment of expenditures for imported goods and the processing of requests for disbursements under the Loan and other loans made by the Bank providing for the financing of imported goods; and

(b) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments shall have reached the equivalent of \$100,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.02 of this Agreement based on evidence satisfactory to the Bank:

(i) with the progress achieved by the Guarantor in carrying out the Program;

(ii) that the actions described in the Schedule to the Guarantee Agreement have been taken; and

(iii) that the macro-economic policy framework of the Guarantor is consistent with the Program.

4. If, after an exchange of views described in paragraph 3 above, the Bank shall have given notice to

the Guarantor, that the progress achieved or actions taken are not satisfactory and, within 90 days after such notice, the Guarantor shall not have achieved progress or taken actions in a manner satisfactory to the Bank, then the Bank may, by notice to the Borrower and the Guarantor, cancel the unwithdrawn amount of the Loan or any part thereof.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to support the implementation of the Guarantor's Program; and (ii) to promote efficient use of agricultural resources and improve the provision of agricultural and food products to low-income populations.

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

Part A: Imports

The financing of general imports in support of the Program.

Part B: Studies

The carrying out of studies of:

(a) expansion of nutritional programs to buffer the impact on low-income populations of the Guarantor's macroeconomic adjustment program, and of nutritional monitoring in both rural and urban areas;

(b) the guarantee price system in Mexico, including issues of pan-territorial and pan-seasonal pricing, and variable tariffs;

(c) sugar pricing policy, including cane, f.o.b. mill and consumer prices, so as to reduce subsidies and promote greater efficiency in the agricultural sector; and

(d) charges for water used in agriculture with the objective of implementing a system of adequate water charges for purposes of recovery of operating and maintenance costs.

* * *

The Project is expected to be completed by June 30, 1989.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
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On each June 15 and December 15	
beginning December 15, 1991 through December 15, 2002	12,500,000
On June 15, 2003	12,500,000

* 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 (expressed 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 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement

1. Contracts for the procurement of goods estimated to cost the equivalent of \$5,000,000 or more each shall be awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published

by the Bank in May 1985 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted there for:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents.

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for goods estimated to cost the equivalent of less than \$5,000,000 each shall be awarded on the basis of the normal procurement procedures of the purchaser of such goods.

3. With respect to each contract referred to in paragraph 1 of this Schedule, the borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request.

4. With respect to each contract referred to in paragraph 2 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract.

5. The provisions of the preceding paragraphs 3 and 4 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 this Agreement.

