

CONFORMED COPY

LOAN NUMBER 7945-MX

Loan Agreement

(Adaptation to Climate Change in the Water Sector Development Policy Loan)

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated July 21, 2010

LOAN AGREEMENT

Agreement dated July 21, 2010, entered into between UNITED MEXICAN STATES (“Borrower”), represented by *Secretaría de Hacienda y Crédito Público*, its Ministry of Finance and Public Credit (SHCP) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework.

Whereas the Borrower has informed the Bank that the proceeds of the Loan (as set forth in the table in Section II of Schedule 1 of this Agreement, and for the purposes of supporting the Program), shall be used in conformity with the requirements of the Borrower’s income, budgetary and public debt laws and the terms of this Agreement, The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of four hundred and fifty million Dollars (\$450,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”).
- 2.02. As a consequence of the Borrower’s maintenance of an adequate macroeconomic policy framework and its satisfactory implementation of the Program, the Borrower may withdraw, or may cause BANSEFI to withdraw the proceeds of the Loan in accordance with Section II of Schedule 1 to this Agreement. Unless the Borrower’s representative designated in Section 6.01 of this Agreement otherwise informs the Bank, the Borrower’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section are the *Director General* of BANSEFI or the *Director General Adjunto de Banca Institucional* of BANSEFI or any person or persons whom such representative shall jointly or severally designate in writing.

- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.07. (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 withdrawn and outstanding 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 the 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 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 for 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 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROGRAM

- 3.01. The Borrower, through SEMARNAT and CONAGUA, declares its commitment to the Program and its results. To this end, and further to Section 5.08 of the General Conditions:
- (a) the Borrower, through SEMARNAT and CONAGUA, and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in the implementation of the Program;
 - (b) prior to each such exchange of views, the Borrower, through SEMARNAT and CONAGUA, shall furnish to the Bank for its review and comment a report on the progress achieved in the implementation of the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall or shall cause BANSEFI, to promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.
- 3.02. (a) The Borrower, through SHCP, shall enter into a contract (*Contrato de Mandato*) among SHCP, SEMARNAT, CONAGUA and BANSEFI, satisfactory to the Bank, whereby:
- (i) BANSEFI agrees to act as financial agent of the Borrower with regard to the Loan, meaning that, *inter alia*, BANSEFI 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 in compliance with the terms of this Agreement; and
 - (ii) the Borrower, through SHCP, SEMARNAT and CONAGUA, shall cooperate fully with BANSEFI to ensure that BANSEFI is able to comply with all of BANSEFI's obligations referred to in paragraph (a) of this Section.
- (b) Exercise its rights and carry out its obligations under the *Contrato de Mandato* in such a manner as to protect the interests of the Bank and 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 *Contrato de Mandato*. In case of any conflict between the terms of the *Contrato de Mandato* and those of this Agreement, the terms of this Agreement shall prevail.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
- (a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
 - (b) The Borrower's macroeconomic policy framework has, in the opinion of the Bank, become inconsistent with the objective of the Program.
 - (c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program (including any action listed in Section I of Schedule 1 to this Agreement) in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the *Contrato de Mandato* has been executed by the parties thereto.
- 5.02. The Additional Legal Matter consists of the following, namely that the Borrower (through separate legal opinions from SHCP, SEMARNAT and CONAGUA) and BANSEFI (in a separate legal opinion satisfactory to the Bank, issued by BANSEFI counsel acceptable to the Bank), indicate that the *Contrato de Mandato* has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and BANSEFI and is legally binding upon the Borrower and BANSEFI in accordance with the *Contrato de Mandato*'s terms.
- 5.03 Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on December 10, 2011.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. Except as set forth in Section 2.02 of this Agreement, the Borrower's representative is the *Titular de la Unidad de Crédito Público* of SHCP.
- 6.02. Unless the Borrower's representative designated in Section 6.01 above otherwise informs the Bank, the Borrower's Address for the purposes of Section 10.01 of the General Conditions is:

Secretaría de Hacienda y Crédito Público

Unidad de Asuntos Internacionales de Hacienda
Palacio Nacional
Edificio 12, segundo piso
Colonia Centro
06000 México, D.F.

Facsímile: 011-52-55-3688-1216

6.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Mexico City, Mexico, as of the day and year first above written.

UNITED MEXICAN STATES

By /s/ Ernesto Cordero Arroyo

Authorized Representative

**INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT**

By /s/ Robert B. Zoellick

Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

The actions taken by the Borrower, through SEMARNAT and CONAGUA, under the Program, aimed at strengthening the institutional framework and monitoring capacity in integrated water resource management as well as mainstreaming adaptation to climate change in water programs, include the following:

1. The Borrower, through SEMARNAT, has adopted the necessary measures to strengthen its commitment to elevate its adaptation to climate change agenda in the water sector, as evidenced by the publication on November 2009 of the Fourth Communication to the United Nations Framework Convention on Climate Change.
2. The Borrower, through CONAGUA, has taken the necessary steps to strengthen the institutional framework for integrated water resource management, as evidenced by: (i) the delegation of increased responsibility to 18 Basin Councils to oversee, plan and manage projects and programs defined in Watershed Management Plans; and (ii) the setting up of two water banks to foster the sustainable management and efficient administration of water resources, as evidenced in chapter 4.1 of the Borrower's third Government Progress Report published on the Borrower's web site (www.informe.gob.mx/informe/) on September 2009.
3. The Borrower, through CONAGUA, has issued regulatory instruments for the promotion of conservation of groundwater resources, as evidenced by: (i) the publication in the Borrower's *Diario Oficial* of NOM 014-CONAGUA-2003 on August 18, 2009, spelling out the requirements for artificial aquifers recharge; and (ii) the publication in the Borrower's *Diario Oficial* of NOM 015-CONAGUA-2007 on August 18, 2009, spelling out the technical specifications for the artificial infiltration of aquifers.
4. The Borrower, through CONAGUA, has strengthened the Borrower's Wastewater Treatment Funding Program as to include criteria promoting the recharge of aquifers and water re-use for conservation of groundwater resources, as evidenced by the operating rules of the Wastewater Treatment Funding Program published in the Borrower's *Diario Oficial* on December 30, 2008.
5. The Borrower, through SEMARNAT (through CONAFOR), has issued operating rules for the Special Program for the Conservation and Protection of Micro-watersheds in Priority Areas, to promote reduction of soil erosion, reforestation and forest protection, as evidenced by the operating rules explicitly addressing climate change adaptation for the Special Program for the Conservation and Protection of Micro-watersheds, published on CONAFOR's web site on July 14, 2009 (www.conafor.gob.mx).

6. The Borrower, through SEMARNAT, has promoted the protection of overexploited aquifers through the strengthening of its programs to foster water productivity of irrigation, as evidenced by the publication in the *Diario Oficial* on December 30, 2008 of operating rules for the Programs for Irrigation, Water, Sewerage and Sanitation executed by CONAGUA.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may, or may cause BANSEFI to withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Loan Amounts.** The Loan shall (except for amounts required to repay the Front-end Fee and any *Premia* for Interest Rate Caps or Interest Rate Collars) be withdrawn in a single tranche. The allocation of the amounts of the Loan to this end is set out in the table below:

<u>Allocations</u>	<u>Amount of the Loan Allocated (expressed in Dollars)</u>	C.
Single Withdrawal Tranche	448,875,000	Withdrawal Tranche Release Conditions
Front-end Fee	1,125,000	
<i>Premia</i> for Interest Rate Caps and Interest Rate Collars (amounts due under section 2.07 (c) of this Agreement)	0	
TOTAL AMOUNT	450,000,000	No withdrawal

shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program, being carried out by the Borrower; and (b) with the appropriateness of the Borrower's macroeconomic policy framework.

- D. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
 2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

E. Excluded Expenditures. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is December 31, 2012.

SCHEDULE 2

Amortization Schedule

The Borrower shall repay the principal amount of the Loan in full on April 15, 2028.

APPENDIX

Section I. Definitions

1. “BANSEFI” means *Banco del Ahorro Nacional y Servicios Financieros, S.N.C.*, a Mexican development bank serving as the Borrower’s financial agent for purposes of the Loan, or any successor thereto acceptable to the Bank for the purposes of this Program.
2. “Basin Councils” means advisory bodies created through the Borrower’s Water Law (*Ley de Aguas Nacionales*), charged with the revision and provision of input to activities for the improvement of water resources management and to develop water activities in their respective basins.
3. “CONAFOR” means *Comisión Nacional Forestal*, the Borrower’s forestry commission.
4. “CONAGUA” means *Comisión Nacional de Agua*, the Borrower’s water commission.
5. “*Contrato de Mandato*” means the contract referred to in Section 3.02 of this Agreement.
6. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked

718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
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		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
7. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
 8. "NOM" means *Norma Oficial Mexicana* (Official Mexican Standards).
 9. "Program" means the program of actions, objectives and policies designed to support the Borrower's actions to ensure adaptation to climate change in the water sector, contributing to long-term sustainable growth as well as strengthening institutions, regulations and monitoring capacity in integrated water resources management, as set forth or referred to in the letter dated April 26, 2010 from the Borrower to the Bank declaring the Borrower's commitment to the execution of the Program and requesting assistance from the Bank in support of the Program during its execution.

10. “Programs for Irrigation, Water, Sewerage and Sanitation” means *Programas de Infraestructura Hidroagrícola y de Agua Potable, Alcantarillado y Saneamiento*, the Borrower’s programs to raise the preservation, efficiency and sustainability in the use of water, promote the strengthening of organizations, companies and associations responsible for water management, water supply services, and sewerage and sanitation services, in urban and rural areas.
11. “SEMARNAT” means *Secretaría de Medio Ambiente y Recursos Naturales*, the Borrower’s Ministry of Environment and Natural Resources.
12. “SHCP” means *Secretaría de Hacienda y Crédito Público*, the Borrower’s Ministry of Finance and Public Credit.
13. “Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
14. “Special Program for the Conservation and Protection of Micro-watersheds in priority areas” means *Programa Especial para la Restauración de las Microcuencas en Zonas Prioritarias*, the Borrower’s program to promote reduction of soil erosion, reforestation and forest protection within priority areas.
15. “Wastewater Treatment Funding Program” means *Programa Fondo Concursable para Tratamiento de Aguas Residuales*, the Borrower’s program for the provision of subsidies for the promotion of wastewater treatment through the construction of new, upgrading of existing, and/or operation and maintenance of wastewater treatment plants.
16. “Watershed Management Plans” means *instrumentos de gestión*, the Borrower’s plans for the management and integrated development of land and water, as well as the associated resources and the environment, set up to sustain and enhance watershed functions that affect the plant, animal and human communities within a watershed boundary, including water supply, water quality, sewerage, drainage, wastewater treatment, water rights, and overall planning and utilization of watersheds.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (b) The term “Financial Statements” and its definition are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”

