

LOAN NUMBER 3141-ME

LOAN AGREEMENT

(Second Agricultural Marketing Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

NACIONAL FINANCIERA, S.N.C.

Date January 23, 1990

LOAN NUMBER 3141-ME

AGREEMENT, dated January 23, 1990 between
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(the Bank) and NACIONAL FINANCIERA, S.N.C. (the Borrower)

WHEREAS (A) the United Mexican States (the
Guarantor) and the Borrower, having been satisfied as to
the feasibility and priority of the Project described in
Schedule 2 to this Agreement, have requested the Bank to
assist in the financing of the Project;

(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 such

other obligations as set forth in the Guarantee Agreement;

(C) by the FIDEC Project Agreement of even date herewith, between the Bank and Banco de Mexico, as trustee for Fondo para el Desarrollo Comercial (FIDEC), the latter has agreed to undertake the obligations set forth in the FIDEC Project Agreement;

(D) by the SNIM Convenio of even date herewith, to be entered into between the Borrower and Servicio Nacional de Informacion de Mercados (SNIM), the latter will undertake the obligations set forth in the SNIM Convenio; 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

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of section 3.02 deleted (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) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "BANXICO" means Banco de Mexico, the central bank of the Guarantor;

(c) "Trust Agreement" means the Contrato de Fideicomiso, dated May 7, 1980, between the Guarantor and BANXICO, whereby Fondo para el Desarrollo Comercial was entrusted to BANXICO as trustee;

(d) "FIDEC" means Fondo para el Desarrollo Comercial, and includes the technical and administrative organization, resources, staff and facilities used or to be used by BANXICO to operate FIDEC as trustee;

(e) "FIDEC Project Agreement" means the agreement between the Bank and BANXICO, as trustee for FIDEC, of even date herewith, as such agreement may be amended from time to time;

(f) "SNIM Convenio" means the agreement to be entered into between the Borrower and SNIM (as hereinafter defined), referred to in Section 3.01 (b) of this Agreement;

(g) "Beneficiary" means a person or a group of persons or an entity having juridical capacity under the laws of the Guarantor engaged in the production, wholesale or retail marketing or exporting of food products, to which a Participating Bank proposes to make or has made a Subloan (as hereinafter defined):

(h) "Investment Project" means a specific marketing development project to be carried out by a beneficiary consisting of one or more of the following activities, or such other marketing activities as shall be acceptable to the Bank:

(i) construction, expansion, remodeling and acquisition of food marketing infrastructure, including, inter alia, wholesale markets or units within such markets to be purchased by individual wholesalers, warehouses, refrigeration equipment, collection centers, retail markets and supermarkets; and

(ii) acquisition of equipment, including, inter alia, scales, shelving equipment, racks, counters, cash registers, computer systems, specialized loading and transport equipment, and other physical investments related to food marketing undertaken by producers, wholesalers, retailers, exporters and agroprocessors;

(i) "Working Capital" means the financing requirements resulting from increased use of raw materials, spare parts and other physical inputs required to expand inventories and receivables and raise the level of revenues of a Beneficiary;

(j) "Working Capital Project" means a specific development project consisting of the provision of Working Capital to a Beneficiary;

(k) "Subproject" means an Investment Project or a Working Capital Project, as the case may be;

(l) "Subloan" means a loan made or proposed to be made by a Participating Bank from the proceeds of the Loan for purposes of a Subproject;

(m) "SNIM" means Servicio Nacional de informacion de Mercados, a public decentralized organization with juridical personality (organismo publico descentralizado, con personalidad juridica y patrimonios propios), established pursuant to decree of the President of the Guarantor, published in Diario Oficial de la Federacion, Segunda Seccion of the Guarantor, Tomo CCCLXXVI. No. 19, dated September 17, 1984.

(n) "CETES" means Certificados de la Tesoreria de la Federacion (Federal Treasury Certificates), as defined in the Diario Oficial de la Federacion, dated November 28, 1977, published by the Guarantor;

(o) "CETES Rate" means the average annual yield, calculated monthly, on CETES with maturities of up to one month, issued during the month in which a CETES Rate is calculated, or such other index reflecting the cost of funds to the Guarantor as shall be acceptable to the Guarantor and the Bank;

(p) "LIBOR" means the average rate per annum at which term deposits in dollars maturing in three (3) months are offered in the London interbank market at 110 a.m. (London time) two business days before the date the rate of interest on the onlent funds denominated in dollars is calculated. For this purpose, "business day" means a day on which dealings in dollar deposits between banks may be carried on in London, England, and on which banks are open in Mexico City, Mexico;

(q) "Normatividad" means de Normatividad para el Ejercicio de Creditos Provenientes de Organismos Financieros Internacionales Destinados a la Banca de Desarrollo y Fondos de Fomento con Apoyos del Gobierno Federal por Diferenciales Negativos en Tasas de Interes, (Regulations Governing the Use of Loans from International Financial Institutions to Development Banks and Funds with Assistance from the Federal Government for Negative Differentials in Interest Rates) issued by the Secretaria de Hacienda Credito Publico and the Secretaria de Programacion y Presupuesto, by means of Oficio No. 102-B-049, dated November 18, 1988;

(r) "peso" means the currency unit of the Guarantor;

(s) "Lending Policy Regulations" means Reglas Generales de Operacion del Fondo para el Desarrollo Comercial (FIDEC), approved by the Technical Committee (as hereinafter defined) on July 28, 1989;

(t) "Appraisal Manual" means the Manual de Evaluacion de FIDEC, dated November 2, 1989, and furnished to the Bank, as amended from time to time;

(u) "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, between the Guarantor and the Bank, dated August 7, 1984, as amended;

(v) "Participating Bank" means any credit institution approved by BANXICO to participate in the carrying out of Part A of the Project by making Subloans to Beneficiaries;

(w) "CPP" means Costo Porcentual Promedio de Captacion, as defined in Diario Oficial de la Federacion, dated October 16, 1981, published by the Guarantor, or such other reference rate as shall be acceptable to the Guarantor and the bank; and

(x) "PVP" means the Sistema de Pagos Variables al valor Presente, a repayment system which permits the partial capitalization of interest in order to maintain the present value of combined repayments of principal and interest of a Subloan.

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, various currencies that shall have an aggregate value equivalent to the amount of one hundred million dollars (\$100,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 and services required for the Project described In Schedule 2 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 in a bank acceptable to the Bank in 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 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1995 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 of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on February 15 and August 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

Execution of the Project

Section 3. 01. (a) The Borrower shall enter into contractual arrangements, satisfactory to the Bank: (i) with the Guarantor and BANXICO, as trustee for FIDEC; and (ii) with the Guarantor and SNIM providing , inter alia, for:

- (A) onlending to BANXICO, as trustee for FIDEC, the proceeds of the Loan required to carry out Parts A, B.1, B.2, B.3 and B.4 of the Project, and transferring to SNIM by means of a budgetary allocation of the Guarantor the proceeds of the Loan required to carry out Part B.5 of the Project, under terms and conditions which shall include: (i) funds onlent for Part A of the Project shall be denominated and repayable either in pesos or in dollars and funds onlent or transferred, as the case may be, for Part B of the Project shall be denominated and repayable in pesos or dollars, as the case may be; (ii) the interest rate charged on funds denominated in pesos shall be equal to the CETES Rate and shall be paid on amounts withdrawn and outstanding on a monthly basis; (iii) the interest rate charged on funds denominated in dollars shall be equal to the LIBOR Rate plus 0.5 percentage points and shall be paid on amounts withdrawn and outstanding on a quarterly basis; and (iv) principal amounts withdrawn and outstanding shall be repaid semiannually in accordance with the timetable set forth in the Amortization Schedule in Schedule 3 to this Agreement.
- (B) provision by the Guarantor to BANXICO, as trustee for FIDEC, in accordance with the Normatividad and by means of specific annual budgetary allocations, of all amounts required to cover: (i) the difference, if any, between the CETES Rate, or the rate referred to in (A) (iii) above, and the interest rate charged on the proceeds of the Loan

onlent by BANXICO, as trustee for FIDEC, in respect of Part A of the Project; and (ii) financial intermediation and operating costs of FIDEC in respect of Part A of the Project; and

- (C) payment by the Guarantor to the Borrower of all amounts required by the Borrower to pay the Bank on account of principal, interest and other charges on the proceeds of the Loan.

(b) The Borrower shall cause SNIM to carry out Part B.5 of the Project by means of entering into an agreement with SNIM, on the terms and conditions set forth in Schedule 5 to this Agreement.

(c) Except as the Bank shall otherwise agree, the Borrower shall not change or fail to enforce the contractual arrangements referred to in paragraph (a) of this Section, or the terms and conditions of the SNIM Convenio.

Section 3.02. Except as the Bank shall otherwise agree: (i) procurement of the goods, works and consultants' services required for Parts A, B.1, B.2, B.3 and B.4 of the Project and to be financed out of the proceeds of the Loan shall be governed by the Schedule 1 to the FIDEC Project Agreement; and (ii) the goods required for Part B.5 of the Project and to be financed out of the proceeds of the Loan shall be procured under established commercial practices acceptable to the Bank.

Section 3.03. 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, respectively) in respect of Parts A and B.1, B.2, B.3 and B.4 of the Project shall be carried out by BANXICO, as trustee for FIDEC, pursuant to Section 2.04 of the FIDEC Project Agreement, and, in respect of Part B.5 of the Project, shall be carried out by SNIM pursuant to the SNIM Convenio.

ARTICLE IV

Financial Covenants

Section 4.01 (a) The Borrower shall maintain separate records and accounts, adequate to reflect, in accordance with consistently maintained sound accounting practices, the resources and expenditures in connection with the execution of the Project.

(b) The Borrower shall:

- (i) have such separate records and accounts, including 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, 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 records, accounts and financial statements as well as 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, in accordance with paragraph (b) of this Section 4.01, records and accounts reflecting such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

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) that BANXICO, as trustee for FIDEC, or SNIM shall have failed to perform any of their obligations under the FIDEC Project Agreement or the SNIM Convenio, respectively;

(b) that, as a result of events which have occurred after the date of this Agreement, a situation shall have arisen that shall make it improbable that: (i) BANXICO, as trustee for FIDEC, will be able to perform its obligations under the FIDEC Project Agreement; or (ii) SNIM will be able to perform its obligations under the SNIM Convenio, respectively;

(c) that the Trust Agreement of Lending Policy Regulations or Appraisal Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of FIDEC or the carrying out of the Project; and

(d) that the Guarantor, BANXICO, or any other authority having jurisdiction shall have taken any action, for the dissolution or disestablishment of FIDEC or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely that any event specified in paragraph (d) of Section 5.01 of this Agreement shall occur, or that any event specified in paragraphs (a) or (c) of said Section shall occur and shall continue for a period of

sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

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: (i) the Borrower, the Guarantor and BANXICO, and (ii) the Borrower, the Guarantor and SNIM, shall have entered into the contractual arrangements referred to in Section 3.01 (a) of this Agreement;

(b) that the Borrower and SNIM shall have entered into the SNIM Convenio; and

(c) that the terms of reference for the study forming Part B.2 (b) of the Project shall have been agreed upon with the Bank.

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 contractual arrangements referred to in Section 3.01 of this Agreement have been entered into and duly authorized by, and are legally binding upon the parties thereto in accordance with their respective terms;

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

(c) that the FIDEC 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.

Section 6.03. The date April 24, 1990 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives 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 (M)
248423 (RCA) or
64145 (WI)

For the Borrower:

Direccion Internacional
Nacional Financiera, S.N.C.
Plaza NAFINSA
Insurgentes Sur 1971
Torre Sur, 11o Piso
CP 01020 Mexico, D.F.
Mexico

Cable Address:

NAFIN
Mexico City

Telex:

NAFIME 383-1775765
Mexico City or
NAFIME 393-1775629
Mexico City

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

President

NACIONAL FINANCIERA, S.N.C.

By

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Financing of Subloans for Investment Projects	79,000,000	80% of the amount rediscounted or otherwise financed by BANXICO in respect of each Sub- loan

(2) Financing of Subloans for Working Capital Projects	19,600,000	80% of the amount re-discounted or otherwise financed by BANXICO in respect of each Subloan
(3) Consultant's services under Parts B.1, B.2, and B.3 of the Project	1,050,000	100%
(4) Goods under Part B.4 of the Project	250,000	100% of foreign expenditures and 80% of local expenditures
(5) Goods under Part B.5 of the Project	100,000	100% of foreign and 80% of local expenditures
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TOTAL	100,000	

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: (i) withdrawals in an aggregate amount not exceeding the equivalent of \$10,000,000, may be made in respect of Categories (1) through (5) on account of payments made for expenditures before that date but after January 23, 1989;

(b) except as the Bank may otherwise agree, disbursements made by BANXICO to any Participating Bank in respect of a Subloan during any three-month period of time, unless the Bank shall have received the evidence referred to in Section 2.02 of the General Interest Rate Agreement for said period with respect to Category VII (Agricultural Marketing Sector) of the table set forth in Schedule 1 to said Agreement, as amended:

(c) disbursements made by BANXICO to Participating Banks to rediscount or otherwise finance any Subloan which is not a free-limit Subloan, as defined in paragraph 3 of Schedule 2 to the FIDEC Project Agreement, unless such Subloan shall have been approved by the Bank;

(d) disbursements made by BANXICO to Participating Banks with respect to Category (2), unless the Bank shall have been provided with evidence satisfactory to the Bank

that such Subloans will be incremental to loans made in the previous years by Participating Banks and financed by BANXICO; and

(e) disbursements made by BANXICO to Participating Banks with respect to Category (1) or (2), in the event that any Subloan in question finances goods, and the importation of such type of goods is prohibited by the laws and regulations of the Guarantor.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to improve the efficiency of the food marketing system in Mexico through the adoption of modern technology and improved marketing methods; (ii) to improve the conditions of competition through better dissemination of information on prices and volumes of products traded, and (iii) to strengthen FIDEC's institutional capabilities.

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: Financing of Subloans

Part B: Technical assistance, consisting of:

1. Studies and institutional strengthening for the purposes of: (a) establishing of a methodology for analyzing and monitoring the food marketing sector; (b) analyzing the distribution systems of selected products or product groups in order to determine investment possibilities; (c) reviewing the organizational structure and technical expertise of FIDEC in order to improve them; and (d) supporting the function within FIDEC's management which will be in charge of the carrying out of the above studies and will have a permanent advisory role.

2. Studies for the purposes of: (a) determining the feasibility of introducing an auction system in several wholesale markets and (b) reviewing the regulatory framework applicable to food distribution in Mexico City to determine whether it unduly creates barriers of entry or delays the modernization of food distribution within the area of Mexico City.

3. Training for the technical staff related to the Project, mainly of FIDEC, the commercial banks and the Beneficiaries, in respect of: (a) modernization of food marketing; (b) policies, norms and procedures of FIDEC's operations; (c) information systems in respect of food marketing; and (d) Subproject evaluation and supervision.

4. Acquisition by FIDEC of computer, statistical information and telecopier systems and documentation concerning food marketing.

5. Acquisition of computer and telecopier systems for SNIM for purposes of enabling SNIM to improve the collection and dissemination of information provided by it.

* * *

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)
On each February 15 and August 15 beginning August 15, 1995 through August 15, 2006	4,165,000
On February 15, 2007	4,205,000

Premiums on Prepayment

Pursuant to section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) through (5) 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 and services required for Parts A and B of 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 an amount equivalent to \$10,000,000 to be withdrawn from the Loan Account and deposited into 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 Subloans requiring prior approval by the Bank, on the date of each payment if the request for such approval in respect of such payment has been made within 90 days of the date of the payment, provided, however, that the withdrawal from the Special Account in respect of such payment has been made within 30 days of the date on which the Bank has issued its approval of each such Subloan; or (ii) on the date each withdrawal shall have been made.

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 a deposit or deposits 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 in 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the Eligible Categories for Parts A and B of the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Parts A and B of the Project, shall equal the equivalent of \$20,000,000.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the Eligible Categories for Parts A and B of the Project 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; (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, 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.

SCHEDULE 5

Terms and Conditions of the SNIM Convenio

A. Execution of the Project

1. (a) SNIM shall declare 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 Part B.5 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural and marketing practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for said Part of the Project.

(b) SNIM shall enter into and duly perform all of its obligations under the contractual arrangements referred to in Section 3.01 (a) of the Loan Agreement. Except as the bank shall otherwise agree, SNIM shall not change or fail to enforce any provision of such contractual arrangements.

2. The goods required for Part B.5 of the Project and to be financed out of the proceeds of the Loan shall be procured by means of established commercial practices acceptable to the Bank.

3. SNIM shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 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, respectively) in respect of the Project Agreement and Part B.5 of the Project.

4. (a) SNIM, shall, at the request of the Bank or the Borrower, exchange views with the Bank or the Borrower, as the case may be, with regard to progress of Part B.5 of the Project, the performance of its obligations under the SNIM Convenio, and other matters relating to the purposes of the Loan.

(b) SNIM shall promptly inform the Bank and the Borrower of any conditions which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by SNIM of its obligations under the SNIM Convenio.

B. Management and Operations of SNIM

1. SNIM shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, agricultural and marketing practices under the supervision of qualified and experienced management assisted by competent staff.

2. SNIM shall at all times operate and maintain its facilities, equipment and other property, and from time to time, promptly as needed, make all necessary repairs

and renewals thereof, all in accordance with sound engineering, financial, agricultural and marketing practices.

3. SNIM shall take out and maintain with responsible insurers, or make other provision, satisfactory to the Bank, for insurance against such risks and in such amounts as shall be consistent with appropriate practices.

C. Financial Covenants

1. (a) SNIM shall maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition and separate records and accounts to record all resources and expenditures in respect of Part B.5 of the Project.

(b) SNIM shall:

- (i) have the records and accounts referred to in paragraph (a) above 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 copies of such records and accounts and of its financial statements for such year, both 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; and
- (iii) furnish to the Bank such other information concerning said records, account and financial statements as well as the audit thereof, as the Bank shall, from time to time, reasonably request.

D. Cancellation and Suspension

All the provisions of the SNIM Convenio shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

