

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7592-MX

Loan Agreement

**(Savings and Rural Finance Second Phase Project)
Second Additional Financing**

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 21, 2008

Public Disclosure Authorized

LOAN AGREEMENT

Agreement dated November 21, 2008, between UNITED MEXICAN STATES (“Borrower”) represented by its SHCP and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”).

Whereas the Borrower has informed the Bank that the proceeds of the Loan (as set forth in the table in Schedule 2 to this Agreement and for purposes of supporting the Project described in Schedule 1 to this Agreement), 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 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 fifty million Dollars (\$50,000,000), 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”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. The Borrower’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the *Director General* of BANSEFI, or the *Director General Adjunto de Banca Institucional* of BANSEFI or any person or persons whom they shall jointly 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 Fixed 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 March 15 and September 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.07.
 - (a) The Borrower may, or may cause BANSEFI to, 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 — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall cause BANSEFI to carry out the Project in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall cause BANSEFI to ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following, namely that any of the events of suspension referred to in Article V of the Original Loan Agreement has occurred.
- 4.02. The Additional Event of Acceleration consists of the following, namely that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the *Mandato* Contract has been modified in a manner acceptable to the Bank so as to reflect changes in implementation arrangements under this Loan Agreement as compared to the Original Loan Agreement.
- 5.02. 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 March 9, 2010.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the *Titular de la Unidad de Crédito Público* of SHCP.

- 6.02. 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.

Facsimile: 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/ Gerardo Rodríguez Regordosa
Authorized Representative**

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

**By /s/ Axel van Trotsenburg
Authorized Representative**

SCHEDULE 1

Project Description

The objective of the Project is to assist the Borrower in strengthening the SCI sector with SCIs which are compliant with the Popular Savings and Credit Law, financially viable, operationally effective, managerially sound, technologically upgraded, and providing an enhanced level of outreach and access to financial services by the underserved Mexican populations.

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

Part A: Strengthening SCIs and the Regulation and Supervision Thereof

1. Provision of technical assistance to about 375 individual SCIs requiring further assistance to that provided under the Prior Loan, and to additional SCIs, as the case may be:

(a) to carry out assessments of its financial and managerial condition so as to determine, *inter alia*, whether an SCI qualifies for authorization by CNBV to operate as an *Entidad*, whether an SCI requires technical assistance for its strengthening or restructuring in order to qualify for such authorization, or whether an SCI should be liquidated;

(b) to support the design and implementation of institutional strengthening plans to allow SCIs to qualify for such authorization;

(c) to, with respect to the SCIs additional to those assisted in the Prior Project with operations in the Expansion Project Area, if any, develop a financial services outreach and communications strategy focusing on the low-income populations within the said area; and

(d) in support of liquidation of unviable SCIs.

2. Provision of technical assistance to individual SCIs requiring further assistance to that provided under the Prior Loan, to specifically develop strategies to deepen penetration and expand their financial services outreach, and to improve their effectiveness and efficiency.

3. Provision of technical assistance on aspects relating to the creation and functioning of the Deposit Protection Fund at the level of *Federación* and *Confederación*.

4. Provision of technical assistance to assist BANSEFI in the management and monitoring of the assistance provided to SCIs by consultants in particular as to their classification and certification, and to the consistency in the application of classification guidelines across individual SCIs by such consultants.

5. Carrying out training and technical assistance programs for:

(a) the staff of SCIs, focusing on the areas of accounting and financial management, portfolio management, risk management, credit analysis, governance aspects, market analysis and understanding, and management of SCIs at the level of *Federación*; and

(b) staff of CNBV, BANSEFI and *Federaciones* to support their regulatory and supervisory roles.

Part B: Developing a Technology Platform

1. Provision of services to strengthen the technological capacity of BANSEFI and the SCIs including, *inter alia*, a data center, and virtual private network services for connectivity.

2. Provision to the SCIs of:

(a) an application package;

(b) data warehouse, enterprise resource planning system, and internet-based banking; and

(c) other technological developments proposed by BANSEFI and agreed to by the Bank.

3. Provision of technical assistance:

(a) to manage and monitor the quality of the hardware and operational services referred to under Part B.1 of the Project, and the application software and other items referred to in Part B. 2 of the Project;

(b) to develop a strategy and an organizational plan for BANSEFI's service of technology platform support;

(c) to verify and validate the application software; and

(d) to manage and monitor implementation of the technology platform (developed under this Part B to the Project) in the SCIs.

Part C: Monitoring and Evaluation, Studies and Information Dissemination

1. Improvement of the size and credibility of the annual household surveys carried out by BANSEFI, interpreting the data collected through these surveys, and ensuring the consistency of the various datasets.
2. Evaluation of the implementation performance and short-term outcomes of Parts A and B of the Project.
3. Focusing the content of the dissemination campaign carried out by BANSEFI to disseminate information on the SCIs to instill confidence in their clients, to market the benefits of financial intermediation, and to disseminate the range of financial products provided under the new technology platform referred to in Part B of the Project.
4. Provision of technical assistance to develop new savings and financial products and services, to price the technology platform services, and to carry out selected studies, proposed by the Borrower and/or BANSEFI, and approved by the Bank, on subjects relevant to the SCI sector and to sustainable development in general.
5. Carrying out workshops and seminars to disseminate the findings of the monitoring and evaluation outcomes and studies referred to in Part C of the Project.

Part D: Project Management

Establishment and operation of the Core Team, including training, as may be required, for Project implementation.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. All implementation arrangements referred to in Article III and Schedule 6 of the Original Loan Agreement, shall apply for the execution of the Project.
2. Without limitation upon the provisions of paragraph 1 of this Section, the Borrower shall cause BANSEFI to carry out the Project in accordance with the relevant Social Development Model, when applicable.

B. Anti-Corruption

The Borrower shall cause BANSEFI to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall cause BANSEFI to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.
2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall cause BANSEFI to maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall cause BANSEFI to prepare and furnish to the Bank not later than forty five (45) days after the end of each calendar semester, interim unaudited financial reports

for the Project covering the semester, in form and substance satisfactory to the Bank.

3. The Borrower shall cause BANSEFI to have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods.** All goods (which include non-consultant services) required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.
2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) National Competitive Bidding
(b) Shopping
(c) Limited International Bidding
(d) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Least Cost Selection
(b) Selection under a Fixed Budget
(c) Single Source Selection
(d) Procedures set forth in paragraphs 5.2, 5.3 and 5.4 of the Consultant Guidelines for the selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may, or may cause BANSEFI to, pursuant to the *Mandato* Contract withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower and/or to BANSEFI (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures and the Front-end Fee as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	1,645,000	47%
(2) Consultant services	7,750,000	47%
(3) Training	1,200,000	47%
(4) Non-Consultants' services	24,600,000	47%
(5) Incremental operating costs	14,680,000	47%
(6) Premia for Interest Rate Caps and Interest Rate Collars	-0-	Amount due under Section 2.07 (c) of this Agreement
(7) Front-end-Fee	125,000	Amount due under Section 2.03 of this Agreement
TOTAL	<u>50,000,000</u>	

3. For the purposes of this Schedule:

(a) the term “non-consultants’ services” includes the cost of services relating to the development and operation of the technology platform, and other expenditures as appropriate, all included under Part A and Part B of the Project;

(b) the term “incremental operating costs” includes: (i) reasonable recurrent expenditures incurred in connection with the execution of the Project (including the Core Team) for rentals, travel, room, board and *per diem* expenditures, maintenance, consumable materials and supplies and utilities (but not including any salaries); (ii) costs incurred by the SCIs for adoption of the technology platform, including cost for data migration incurred at the SCIs; and technical assistance to the SCIs (as necessary); all which would not have been incurred absent the Project; and

(c) the term “training” includes only: (i) reasonable travel, room, board and *per diem* expenditures incurred by trainees in connection with their training; (ii) reasonable fees charged by consultants serving as trainers; (iii) reasonable course fees charged by academic institutions; (iv) reasonable training facility and equipment rental expenses; and (v) reasonable training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$5,000,000 equivalent may be made for payments made within twelve (12) months prior to the date of this Agreement, but in no case prior to January 1, 2008, for Eligible Expenditures. Furthermore, no withdrawals shall be made from the Loan Account until the Bank has received payment in full of the Front-End Fee referred to in Section 2.03 of this Agreement.

2. The Closing Date is July 31, 2012.

SCHEDULE 3

The Borrower shall repay the principal amount of the Loan in full on September 15, 2023.

APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
5. “Original Loan Agreement” means the Loan Agreement dated October 1, 2004 (Loan Number 7240-ME), as amended on March 27, 2007 through the additional Loan Number 7438-ME for a loan in the amount of twenty nine million Dollars (\$29,000,000) between the Borrower and the Bank for the purposes of financing the Project.
6. “Prior Loan” means a loan in the amount of sixty four million six hundred thousand Dollars (\$64,600,000), in terms of the agreement entered into between the Borrower and the Bank on February 28, 2003.
7. “Prior Project” means a project in support of the Savings and Credit Sector Strengthening and Rural Microfinance Capacity Building Technical Assistance Project, which Project is financed with the Prior Loan.
8. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
9. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated July 29, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
10. “SCI” means a Mexican savings and credit institution which, independently of its corporative or other organizational form, is subject to the provisions of the

Popular Savings and Credit Law, and any other financial institution agreed to with the Bank.

11. The terms “BANSEFI”, “CNBV”, “*Confederación*”, “Core Team”, “Deposit Protection Fund”, “*Entidad*”, “Expansion Project Area”, “*Federación*”, “IPDP”, “*Mandato Contract*”, “Popular Savings and Credit Law”, “SHCP”, “Social Development Model” have the meaning ascribed to them in the Original Loan Agreement.