

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7500-ME

Loan Agreement

**(Savings and Rural Finance SAGARPA Project)
Additional Financing**

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated February 8, 2008

Public Disclosure Authorized

LOAN NUMBER 7500-ME

LOAN AGREEMENT

Agreement dated February 8, 2008, between UNITED MEXICAN STATES (“Borrower”) represented by its signatory on page 4 of this Agreement and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). 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 twenty one million Dollars (\$21,000,000), 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 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Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 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 4.04 (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 carry out Part A of the Project, through SAGARPA, 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,

through SAGARPA, shall 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 BANSEFI/SAGARPA 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 July 17, 2009.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01 The Borrower's Representative is its *Titular de la Unidad de Crédito Público* of SHCP.
- 6.02. The Borrower's Address referred to in Section 7.01 of the Standard Conditions is:

Secretaría de Hacienda y Crédito Público
Unidad de Crédito Público
Palacio Nacional
Patio Central
3er piso, oficina 3010
Colonia Centro
06000 México, D.F.

Facsímile: 011-52-55-3688 -1156

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 improve the financial stability and outreach capacity of SCIs throughout Mexico, with emphasis on those serving rural areas of the country, to thus contribute to the integration of low-income populations into the Mexican economy by increasing such populations' access to financial services and consequently aid in the realization of such populations' income-generating potential.

The Project consists of the following:

Part A: Expansion of Financial Services in Rural Areas; SCI Sector Studies, Monitoring and Information Dissemination and Project Management

1. Provision of technical assistance to individual SCIs to support the design and implementation of regional development plans to allow them to increase their financial services outreach to selected low-income rural populations at the national level that are underserved by the financial services sector (if necessary through the establishment of additional SCIs or through the establishment of new points of service, in which case the new offices or additional SCIs may, as part of the technical assistance package, receive support for infrastructure and expansion services.

2. (a) Carrying out of studies of financial intermediation in rural areas, with a view to defining new financial methodologies adapted to local conditions; and (b) carrying out of activities to monitor and evaluate Project implementation, impact of sector interventions, and performance of individual SCIs supported by Part A.1 of the Project.

3. Provision of technical assistance, training and material support to the Technical Unit in order to assist in its Project implementation functions.

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, as apply to Part B, Part C.2 and D.2 of the Original Project, shall apply for the execution of Part A of the Project. For the purposes of Part A.1 of the Project, however, Schedule 6, Part B.2 (g) of the Original Loan Agreement shall apply to all regions (not just those identified in the Original Loan Agreement).
2. Without limitation upon the provisions of paragraph 1 of this Section, the Borrower, through SAGARPA, shall carry out the Project in accordance with the relevant IPDP and IPF (as the case may be).

B. Anti-Corruption

The Borrower, through SAGARPA, shall 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, through SAGARPA, shall 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, through SAGARPA, shall 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, through SAGARPA, shall 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, through SAGARPA, shall 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 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. **National Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of National Competitive Bidding procedures.
2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than National 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) Shopping |

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) Fixed Budget |
| (b) 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 BANSEFI/SAGARPA 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 BASEFI (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 USD)</u> | <u>Percentage of Expenditures to be financed (inclusive of Taxes)</u> |
|---|--|---|
| (1) Consultants' services and training for Part A.1 (only for the technical assistant part of said consultancies), Part A.2 and Part A.3 of the Project | 20,910,000 | 83% |
| (2) Incremental operating costs | 37,500 | 100% |
| (3) Front-end Fee | 52,500 | Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions |
| TOTAL AMOUNT | 21,000,000 | |

For purposes of this paragraph the terms:

(a) "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; and

(b) "incremental operating costs" includes reasonable recurrent expenditures incurred in connection with operation of the Technical Unit for rentals, travel, room, board and *per diem* expenditures, maintenance, consumable materials and supplies and utilities (but not including any salaries), which would not have been incurred absent the Project.

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 \$3,000,000 equivalent may be made for payments made within twelve (12) months of this Agreement, but in no case prior to December 1, 2007, 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 February 28, 2011.

SCHEDULE 3

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

| Principal Payment Date | Installment Share (Expressed as a Percentage) |
|---|--|
| On each March 15 and September 15 Beginning March 15, 2013 through September 15, 2022 | 5% |

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
- (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date

following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
- 5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

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. “Expansion Project Area” means selected municipalities in the Borrower’s territory, identified in the Implementation Letter (as hereinafter defined).
5. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007).
6. “Implementation Letter” means the letter of even date herewith, from BANSEFI and SAGARPA to the Bank, containing (i) the performance indicators for Project monitoring and evaluation, (ii) the list of municipalities that constitute the Expansion Project Area, (iii) the Social Development Model and (iv) the criteria for an SCI (as hereinafter defined) to qualify for participation in Part A.1 of the Project.
7. “IPDP” means each of the following indigenous peoples’ development plans: (i) SAGARPA’s March 2002 *Plan de Desarrollo de Pueblos Indígenas de las Huastecas*; (ii) SAGARPA’s March 2002 *Plan de Desarrollo de Pueblos Indígenas de Chiapas*; (iii) SAGARPA’s 2003 plans for Guerrero, Puebla, Michoacan, Oaxaca and Veracruz; and (iv) any such plan prepared by SAGARPA in accordance with the IPF (as hereinafter defined) for purposes of carrying out Part A.1 of the Project.
8. “IPF” means the indigenous peoples development framework for the Project, which framework serves as a base for the preparation of development plans (through the carrying out of social analyses and consultations and the implementation of the Social Development Model (as hereinafter defined)) to ensure indigenous peoples benefit from the Project.

9. “Original Loan Agreement” means the Loan Agreement dated February 28, 2003 (Loan Number 7132-ME) between the Borrower and the Bank for the purposes of financing the Original Project (as hereinafter defined).
10. “Original Project” means the project described in Schedule 2 of the Original Loan Agreement.
11. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
12. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated October 31, 2007 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.
13. “Social Development Model” “Social Development Model” means a methodology for the consultative elaboration of IPDPs and for the extension of Project benefits to economically marginalized sectors of the population of the Expansion Project Area.
14. The terms “BANSEFI”, “BANSEFI/SAGARPA Contract”, “Project Operational Manual”, “SAGARPA”, “SCI”, “SHCP”, and “Technical Unit” have the meaning ascribed to them in the Original Loan Agreement.