

CONFORMED COPY

LOAN NUMBER 3357 ME

(Agricultural Sector Adjustment Loan II)

between

NACIONAL FINANCIERA, S.N.C.

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 26, 1991

LOAN NUMBER 3357 ME

LOAN AGREEMENT

AGREEMENT, dated June 26, 1991, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NACIONAL FINANCIERA, S.N.C. (the Borrower).

WHEREAS: (A) the Bank has received a letter dated May 29, 1991, from the United Mexican States (the Guarantor) describing a program of actions (taken and to be taken), objectives and policies designed to promote greater efficiency and higher productivity in the Guarantor's agricultural and agro-industrial sectors, reduce poverty and malnutrition and improve the cost-effectiveness of government expenditures in food and nutrition programs (hereinafter called the Program), declaring the Guarantor's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of imports required during such execution;

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

(C) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Guarantor by making the Loan to the Borrower in two tranches (each of \$200,000,000) (each tranche referred to hereinafter as "tranche")

as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 9.07 (c) shall be modified to read:

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

(b) the last sentence of Section 3.02 is deleted; and

(c) in Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "Fiscal Year" means the fiscal year of the Guarantor, beginning in January 1 of each year;

(b) "Food and Nutrition Program" means the Guarantor's overall food and nutrition program (Programa Nutricional y Alimentario), which includes, inter alia, the following individual programs: 1. Nutrition and Health (Programa de Nutricion y Salud) as such program is described in the document dated May 6, 1991, as attached to the Borrower's letter to the Bank dated May 22, 1991; 2. Tortibonos Tortivales as such program is described in the document dated May 7, 1991, as attached to the Borrower's letter to the Bank dated May 22, 1991 (hereinafter Tortivales); 3. Social Supply of Milk (Abasto Social de Leche) as such program is described in the document dated May 7, 1991, as attached to the Borrower's letter to the Bank dated May 22, 1991, (hereinafter Abasto Social); and 4. Any other program which is being carried out or may be carried out by the Guarantor, and which program, in its content and purposes, conforms with the criteria set forth in the Program, including the Programa de Alimentacion, Nutricion y Salud as defined in the Program; and "Selected Food and Nutrition Program" means collectively: Tortivales, Abasto Social, and the Pilot Project (as hereinafter defined);

(c) "MES" means the Guarantor's system, satisfactory to the Bank, for the monitoring and evaluation of the Food and Nutrition Program;

(d) "MES Implementation Plan" means the Guarantor's plan satisfactory to the Bank, for the implementation of the MES as such plan is contained in the document dated May 22, 1991, as attached to

the Borrower's letter to the Bank dated May 22, 1991;

(e) "Pilot Project" means the project, satisfactory to the Bank, designed to (a) provide food assistance to approximately 45,000 rural families in the Guarantor's States of Nuevo Leon, Tamaulipas, San Luis Potosi and Mexico; and (b) test alternative methods for operating a nutrition and health program, as such project is described in the document of the Guarantor entitled Proyecto Piloto de Nutricion, Alimentacion y Salud dated January 1991;

(f) "Production Targets Action Plan" means the Guarantor's plan of action to be submitted to the Bank pursuant to Section 3.05 of the Guarantee Agreement;

(g) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 343 (1986);

(h) "CONASUPO" means the Guarantor's Compania Nacional de Subsistencias Populares, the Guarantor's Food Marketing Agency;

(i) "PRONASE" means the Guarantor's Productora Nacional de Semillas, the Guarantor's National Seed Production Agency; and

(j) "INIFAP" means the Guarantor's Instituto Nacional de Investigaciones Forestales Agricolas y Pecuarias, the Guarantor's National Institute of Forestry and Agricultural Research.

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 four hundred million dollars (\$400,000,000), 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. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement.

Section 2.03. The Closing Date shall be February 28, 1993 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower 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 amount 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) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) 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 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

Transfer of the Loan Proceeds; Other Covenants

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

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section audited, in accordance with appropriate auditing principles consistently applied, by independent and qualified auditors;
- (ii) without limitation or restriction to paragraph 8 of the Schedule to the Guarantee Agreement, furnish to the Bank as soon as available, but in any case not later than one hundred and twenty (120) days after the last withdrawal from the Loan Account has been made under each tranche, a certified copy of the report of the respective 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 and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the period in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in each of the audits 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 the period covered by the audit, 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 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

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

(b) that the Guarantor has completed and furnished to the Bank the study referred to in Part B.5 of the Project;

(c) that the Guarantor has issued a decree, satisfactory to the Bank, to modify the current cane payment arrangements for purposes of improving efficiency in sugar milling and cane production;

(d) that the Guarantor has eliminated, in a manner satisfactory to the Bank, all export permits for wheat, sorghum, feedstuffs, soybean, barley, copra, cartamo, cartamo oil, cottonseed, tobacco and eggs; and

(e) that the Guarantor has eliminated, in a manner satisfactory to the Bank, all export taxes for raw cotton, cotton fiber and swine for breeding.

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

Section 6.03. The date September 26, 1991 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 Borrower:

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

Cable address:

NAFIN
Mexico City

Telex:

NAFIME 303-1775765
Mexico City

Fax:

548-5191

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.

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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.

NACIONAL FINANCIERA, S.N.C.

By /s/ Oscar Espinosa Villareal
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Rainer B. Steckhan
Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

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

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

Group	Subgroup	Description of Items
112	--	Alcoholic beverages
121	--	Tobacco, unmanufactured, 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

Group	Subgroup	Description of Items
		thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	--	Gold, nonmonetary (excluding gold ores and concentrates)

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

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

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

(e) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption; and

(f) expenditures for crude oil or foodstuffs.

3. Withdrawals for expenditures under contracts for the procurement of goods estimated to cost less than \$5,000,000 may be permitted by the Bank upon the basis of statements of expenditure under such terms and conditions as the Bank shall specify.

4. No withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the proceeds of the Loan after the aggregate of the proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments shall have reached the equivalent of \$200,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.02 of this Agreement based on evidence satisfactory to the Bank: (a) with the progress achieved by the Guarantor in the carrying out of the Program; (b) that the actions described in the Schedule to the Guarantee Agreement have been taken in form and substance satisfactory to the Bank; and (c) that the macroeconomic policy framework of the Guarantor is consistent with the objectives of the Program.

5. If, after the exchange of views described in paragraph 4 above, the Bank shall have given notice to the Borrower that the macroeconomic policy framework of the Guarantor is not consistent with the objectives of the Program or that the progress achieved in carrying out the program or actions taken pursuant to the Schedule to the Guarantee Agreement are not satisfactory and, within 90 days after such notice, the Guarantor shall not have achieved progress, in carrying out the Program, or taken action, in a manner satisfactory to the Bank, or the macroeconomic policy framework remains not consistent with the objectives of the Program, then the Bank may, by notice to the Guarantor, cancel the unwithdrawn amount of the Loan or any part thereof.

SCHEDULE 2

Project Description

The objective of the Project is to support the implementation of the Guarantor's Program.

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

Part A: Imports

The financing of general imports in support of the Program.

Part B: Studies

The carrying out of studies on:

1. the edible beans market to define price and trade policy;
2. pesticides to (i) diagnose current usage, (ii) assess current legal and institutional framework, (iii) streamline procedures to promote competition between producers and distributors, and (iv) establish guidelines to reach minimum standards on health, environmental issues and quality control enforcement;
3. the sugar sector to determine the set of policies to be applied to the sector;
4. the regulation, organization and procedures of the system of plant protection and animal health and the elaboration of a proposal to modernize the system and streamline its procedures;
5. the identification of the regulatory framework and processes under which SARH and other of the Guarantor's departments, agencies and entities establish, coordinate and enforce crop production targets and the elaboration of proposals to eliminate and dismantle such regulatory framework and processes; and
6. the design of a system to (a) eliminate CONASUPO's monopoly on imports of powder milk and (b) allocate import permits of powder milk in a transparent, efficient and competitive basis.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 15 and August 15	
beginning February 15, 1997 through February 15, 2008	16,665,000
and on August 15, 2008	16,705,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

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 eleven years before maturity	0.65
More than eleven years but not more than fifteen years before maturity	0.88
More than fifteen years before maturity	1.00

SCHEDULE 4
Procurement

1. Contracts for the procurement of goods estimated to cost the equivalent of \$5,000,000 or more each shall be awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), subject to the following modifications:

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

"2.8 Notification and Advertising

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

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

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

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

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

2. Contracts for the procurement of goods estimated to cost the equivalent of less than \$5,000,000 shall be awarded:

(a) by purchasers required to follow the Borrower's public procurement procedures for the importation of goods, on the basis of such procedures, provided that such procedures shall have been found acceptable by the Bank; and

(b) by other purchasers, in accordance with established commercial practice.

3. With respect to each contract referred to in paragraph 1 of

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

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

5. The provisions of the preceding paragraph 4 of this Schedule shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure.

