

CONFORMED COPY

LOAN NUMBER 7652-MX

Loan Agreement

(Sustainable Rural Development Project)

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 14, 2009

LOAN AGREEMENT

Agreement dated May 14, 2009, between UNITED MEXICAN STATES (“Borrower”), as represented by SHCP, and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”).

WHEREAS by an agreement of even date herewith between the Borrower and the Bank, acting as implementing agency of the GEF (the “GEF Grant Agreement”), the Bank has agreed to make a grant to the Borrower in an amount of ten million five hundred thousand Dollars (\$10,500,000) (the “GEF Trust Fund Grant”) to assist in the financing of the Project on the terms and conditions set forth in the GEF Grant Agreement;

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;

NOW THEREFORE, 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 Internacional* of NAFIN, and any person or persons whom he or she shall designate in writing.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount,

- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall cause SAGARPA’s FIRCO 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 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 Event of Suspension consists of the following, namely that any of the parties to the *Contrato de Mandato* shall have failed to perform any of its obligations under the *Contrato de Mandato*.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the 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 Conditions of Effectiveness consist of the following:
- (a) the *Contrato de Mandato* has been duly executed by the parties thereto; and
 - (b) the Borrower (in its legal opinion), NAFIN (in a separate legal opinion satisfactory to the Bank, issued by NAFIN counsel acceptable to the Bank) and FIRCO (in a separate legal opinion satisfactory to the Bank, issued by FIRCO counsel acceptable to the Bank), indicate that the *Contrato de Mandato* has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, NAFIN and FIRCO and is legally binding upon the Borrower, NAFIN and FIRCO in accordance with the *Contrato de Mandato*'s terms.
- 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 August 24, 2010.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. Except as set forth in Section 2.02 of this Agreement, the Borrower's Representative is the *Titular de la Unidad de Crédito Público* of SHCP.
- 6.02. The Borrower's Address for the purposes of Section 10.1 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 promote the adoption of environmentally sustainable technologies in agri-businesses.

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 its objective:

Part 1: Environmentally Sustainable Technologies in Agri-business

Promotion of the adoption of environmentally sustainable technologies in agri-business operating at the various stages of the production chain of agricultural products, including, *inter alia*:

(a) Modernization and rehabilitation of small and medium-sized agri-businesses to improve their environmental sustainability, with particular emphasis on energy consumption efficiency and/or renewable energy.

(b) Promotion of sustainable waste management and biomass conversion with potential use as energy.

Part 2: Investment and Production Support Services

Provision of technical assistance and training to Beneficiaries for:

(a) the preparation of investment business plans that would subsequently be submitted for Agri-business Sub-projects; and

(b) the implementation of Agri-business Sub-projects, with special reference to integration of energy efficient production and processing technologies in farms and agri-businesses.

Part 3: Institutional Strengthening

Provision of technical assistance, training and equipment to:

(a) strengthen the institutional capacity of SAGARPA and FIRCO to, *inter alia*: address climate change and environmental issues in the agricultural sector, assist in Project promotion and implementation and share lessons learned from Project implementation; and

(b) establish and operate pilot projects to demonstrate and validate energy efficient technologies.

Part 4: Project Management, Monitoring and Evaluation

Provision of technical assistance, training and equipment (as necessary) for, inter alia:

(a) the development and operation of a Project monitoring and evaluation system;
and

(b) the strengthening of the IT in order to comply with its Project management and implementation responsibilities.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank may otherwise agree, the Borrower shall cause SAGARPA's FIRCO (pursuant to the *Contrato de Mandato*) to carry out the Project in accordance with the Operational Manual. Except as the Bank shall otherwise agree, the Borrower shall not amend or waive any provision of the Operational Manual without the Bank's prior written approval. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.
2. The Borrower shall cause SAGARPA's FIRCO to maintain an operational manual, satisfactory to the Bank, containing, inter alia, specific provisions on detailed arrangements for the carrying out of the Project, including:
 - (i) the procurement, financial management and disbursement requirements thereof;
 - (ii) the criteria and methods for the selection, approval, implementation and monitoring of the Agri-business Sub-projects;
 - (iii) a model Agri-business Sub-project Agreement;
 - (iv) the EMP;
 - (v) the IPF;
 - (vi) the restrictive negative list for the selection of Agri-business Sub-projects; and
 - (vii) the Key Performance Indicators.
3. The Borrower shall cause SAGARPA's FIRCO to:
 - (a) maintain, in SAGARPA's FIRCO, at all times during Project implementation, a Project implementation team, within SAGARPA's FIRCO regular structure, with a structure, functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility of said team to coordinate and monitor the carrying out of the Project;
 - (b) ensure that the IT is, at all times during Project implementation, led by a Project coordinator who is assisted by adequate professional and administrative staff (including procurement and financial specialists), in numbers and with experience and qualifications acceptable to the Bank, operating under terms of reference satisfactory to the Bank; and

- (c) maintain at all times during Project implementation a Sub-project evaluation mechanism with responsibilities and functions satisfactory to the Bank, including, *inter alia*, defining the rules and procedures that govern presentation and selection of Agri-business Sub-projects and follow-up of Agribusiness Sub-project implementation.
4. Prior to the disbursement of an Agri-business Grant, the Borrower shall cause SAGARPA'S FIRCO to enter into a sub-project agreement with a Beneficiary for the financing of an Agri-business Sub-project, under terms and conditions acceptable to the Bank (as outlined in the Operational Manual), including, *inter alia*, the right of the Borrower and the Bank to:
- (a) suspend or terminate the right of any Beneficiary to receive or use the Agri-business Grant; and
- (b) obligate any Beneficiary to refund all or any part of the amount of the Agri-business Grant, upon the Beneficiary's failure to perform any of its respective obligations under the relevant Sub-project Grant Agreement.

B. Contrato de Mandato

1. The Borrower, through SHCP shall enter into a contract (*Contrato de Mandato*), satisfactory to the Bank, among SAGARPA'S FIRCO and NAFIN, whereby:
- (a) NAFIN agrees to act as financial agent of the Borrower with regard to the Loan, meaning that, *inter alia*, NAFIN agrees to represent the Borrower *vis-à-vis* the Bank for purposes of submitting Loan withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Borrower of Loan proceeds and agrees to maintain and operate the designated account (referred to in the additional instructions cited in Section IV.A.1 of Schedule 2 to this Agreement) in compliance with the terms of this Agreement; and
- (b) the Borrower shall, and shall cause SAGARPA'S FIRCO, to cooperate fully with NAFIN to ensure that NAFIN is able to comply with all of NAFIN'S obligations referred to in paragraph (a) of this Section.
2. The Borrower shall exercise its rights and carry out its obligations under the *Contrato de Mandato* in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Loan. Except as the Bank may otherwise agree, the Borrower shall not amend or fail to enforce any provision of the *Contrato de Mandato*. In case of any conflict between the terms of the *Contrato de Mandato* and those of this Agreement, the terms of this Agreement shall prevail.

C. Anti-Corruption

The Borrower 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

The Borrower shall cause SAGARPA's FIRCO 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 Key Performance Indicators set forth in the Operational Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall cause SAGARPA's FIRCO 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 SAGARPA's FIRCO to prepare and furnish to the Bank as part of the Project Report 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 SAGARPA's FIRCO to have the Project 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, commencing with the fiscal year in which the Project becomes effective. 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 and Works.** All goods and works 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.

4. **Special Provisions.** The Borrower shall cause SAGARPA's FIRCO to: (a) supply the SEPA with the information contained in the initial Procurement Plan within 30 days after the Project has been approved by the Bank; and (b) update the Procurement Plan at least every six months, or as required by the Bank, to reflect the actual Project implementation needs and progress and supply the SEPA with the information contained in the updated Procurement Plan immediately thereafter.

B. Particular Methods of Procurement of Goods and Works

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

Procurement Method
(a) National Competitive Bidding
(b) Shopping
(c) Commercial Practices

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.

Procurement Method
(a) Least Cost Selection
(b) Selection Based on Consultant's Qualifications
(c) Single-Source Selection
(d) Commercial Practices
(e) Procedures set forth in paragraphs 5.2 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 NAFIN to, pursuant to the *Contrato de Mandato*) 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 NAFIN (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.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, Consultants services and Training other than those financed by the GEF Trust Fund Grant	3,200,000	100%
(2) Agri-business Grants, other than those financed by the GEF Trust Fund Grant	46,675,000	100% of the federal contribution for goods, works and services required for an Agri-business Sub-project
(3) Front-end Fee	125,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Premia for Interest Rate Caps and Interest rate Collars (amounts due under section 2.07 (c) of this Agreement)	-0-	
TOTAL AMOUNT	50,000,000	

For purposes of this Section IV, the term “Training” means non- consultant expenditures incurred in connection with the provision of training under the Project, including training fees, logistics, materials, and reasonable cost of travel and per diem of trainers and trainees

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 September 1, 2008, for Eligible Expenditures.
2. The Closing Date is December 31, 2013.

SCHEDULE 3

Amortization Schedule

The Borrower shall repay the principal amount of the Loan in full on October 15, 2026.

APPENDIX

Definitions

1. “Agri-business Grant” means a monetary transfer made, or proposed to be made, (pursuant to a Sub-project Grant Agreement (as hereinafter defined)) by the Borrower out of the proceeds of the Loan to a Beneficiary for the partial financing of an Agri-business Sub-project (as hereinafter defined) in accordance with the criteria and procedures set forth in the Operational Manual (as hereinafter defined).
2. “Agri-business Sub-projects” means a set of activities, including the provision of works, goods and services, carried out in support of the purposes specified in Part 1 of the Project, which set is selected, approved and implemented in accordance with the requirements of the Operational Manual.
3. “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.
4. “Beneficiary” means an eligible small or medium size agri-business with legal personality operating at the various stages of the production chain of agricultural products, which incorporates environmentally sustainable technologies into its business and which has met the eligibility criteria specified in the Operational Manual (as hereinafter defined), and as a result, has been granted or is eligible to be granted an Agri-business Grant.
5. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
6. “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.
7. “*Contrato de Mandato*” means the contract referred to in Section I. B of Schedule 2 to this Agreement, as the same may be amended from time to time.
8. “EMP” means the environmental impact framework for the Project, dated August 26, 2008, that contains specific environmental rules and procedures for the Project, including those rules and procedures for the Agri-business Sub-projects, as said framework may be updated from time to time by agreement between the Borrower and the Bank.
9. “FIRCO” means *Fideicomiso de Riesgo Compartido*, a Borrower’s trust assisting SAGARPA (as hereinafter defined) as an agency for the promotion of agri-business, established by Presidential Decree and governed by *Decreto que Regula el Fideicomiso de Riesgo Compartido*, published in the Borrower’s Official Gazette (*Diario Oficial de la Federación*) on August 6, 2004.

10. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
11. “IPF” means the Borrower’s indigenous peoples framework for the Project, dated August 26, 2008.
12. “IT” means the Project implementation team referred to in Section I.A.3 of Schedule 2 to this Agreement.
13. “Key Performance Indicators” means the indicators for monitoring and evaluating progress towards the attainment of the Project’s objective.
14. “NAFIN” means *Nacional Financiera, S.N.C.* a Mexican development bank serving as the Borrower’s financial agent for purposes of the Loan.
15. “Operational Manual” means manual referred to in Section I.A.2 of Schedule 2 to this Agreement.
16. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
17. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated November 20, 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.
18. “SAGARPA” means *Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación*, the Borrower’s Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food.
19. “SEPA” means the Bank’s publicly accessible Procurement Plans Execution System.
20. “SHCP” means *Secretaría de Hacienda y Crédito Público*, the Borrower’s Secretariat of Finance and Public Credit.
21. “Sub-project Grant Agreement” means any of the agreements referred to in Section I.A.4 of Schedule 2 to this agreement.