

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7323-ME

Loan Agreement

(Access to Land for Young Farmers Pilot Project)

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 23, 2005

Public Disclosure Authorized

LOAN NUMBER 7323-ME

LOAN AGREEMENT

AGREEMENT, dated September 23, 2005 between UNITED MEXICAN STATES (the Borrower) represented by its signatory on page 20 of this Agreement and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower is a signatory of the Articles of Agreement of the International Bank for Reconstruction and Development (the international treaty by which the Bank was created), which Articles of Agreement contain, *inter alia*, general provisions relating to loans extended by the Bank;

WHEREAS (B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

WHEREAS (C) the Project will be carried out by the Borrower's Secretariat of Agrarian Reform, with the Borrower's assistance; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999 (as amended through May 1, 2004) (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective

meanings therein set forth and the following additional terms have the following meanings:

(a) “Agrarian Law” means the Borrower’s Agrarian Law (*Ley Agraria*) published in the Official Gazette on February 26, 1992;

(b) “Approved POA” means each annual operating plan referred to in Section 3.06 (b) of this Agreement;

(c) “CDI” means the Borrower’s *Comisión Nacional para el Desarrollo de los Pueblos Indígenas*, the commission established pursuant to the Borrower’s Law published in the Official Gazette on May 21, 2003;

(d) “CDI Agreement” means the agreement referred to in Section 3.01 (h) of this Agreement;

(e) “Community” means any population and land tenancy unit (*comunidad*), with its own legal personality, governed by Title III, Chapter V of the Agrarian Law (*Ley Agraria*), or a legally established association of Communities, located in any Participating State represented by the Community’s duly elected officials;

(f) “Complementary Subproject Financing” means a subloan or grant made by a Financing Agency for the financing, out of its own resources, of a Productive Subproject;

(g) “Demonstration Subproject” or “*Proyecto Escuela*” means a subproject, to be carried out by a group of JERs, and consisting of a set of activities mentioned in Part A.2 (a) of the Project, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(h) “Demonstration Subproject Grant” means a grant to be provided to the JERs for the financing of the costs of installation and operation of the demonstration activities, training, technical assistance and stipends (*beca*) for the JERs participating in the Demonstration Subproject, which grant is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(i) “Demonstration Subproject Grant Agreement” means any of the agreements referred to in Section 3.01 (i) of this Agreement;

(j) “*Ejido*” means any population and land tenancy unit, with its own legal personality, governed by Title III, Chapters I-IV of the Agrarian Law, or a legally established association of *Ejidors*, located in any Participating State, which meets the criteria and other requirements set forth in the Operational Manual to participate in the Project;

(k) “Eligible Categories” means Categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(l) “Eligible Expenditures” means the expenditures for goods, works, consultants’ services, Land Transaction Sub-loans, Productive Subproject Subloans and Grants referred to in Section 2.02 of this Agreement;

(m) “Environmental Management Plan” means the environmental management plan for the Project set forth in the Implementation Letter;

(n) “FIFONAFE” means *Fideicomiso Fondo Nacional para el Fomento Ejidal*, the Borrower’s National Trust Fund for the Development of the *Ejido* sector established on October 25, 1960 and registered in the Borrower’s Registry of Trust Funds No. 813 of September 12, 1961, as amended to the date of this Agreement;

(o) “FIFONAFE Agreement” means the agreement referred to in Section 3.01 (e) of this Agreement;

(p) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(q) “Financing Agency” means a financial institution or institutions or other public or private agency or agencies which provide Complementary Subproject Financing for a Productive Subproject under Part B.2 (a) (iii) of the Project;

(r) “Financing Agency Agreement” means the agreement referred to in Section 3.01 (f) of this Agreement;

(s) “Grants” means collectively the Demonstration Subproject Grants, the Productive Subproject Grants, the Subproject Preparation TA Grants and the Subproject Implementations TA Grants;

(t) “Grant Agreements” means collectively the Demonstration Subproject Grant Agreements, the Subproject Preparation TA Grant Agreements, the Subproject Implementation TA Grant Agreements, and the Productive Subproject Grant Agreements;

(u) “Implementation Letter” means the letter from SRA to the Bank dated June 16, 2005, containing: (i) the indicators to be used in monitoring the progress of the implementation of the Project and in evaluating its results; (ii) the Environmental Management Plan; (iii) the Pest Management Plan; and (iv) the Indigenous Peoples Development Plan;

(v) “Indigenous Peoples Development Plan” or “IPDP” means the plan for benefiting indigenous peoples under the Project as set forth in the Implementation Letter;

(w) “JER” or “*Joven Emprendedor Rural*” means an individual or individuals: (i) residing in an *Ejido* with either: (A) clear usufruct rights over a parcel of land, access to communal land, and the right to a house plot (*ejidatario*); (B) possession rights of plots, but no other rights (*posesionarios*); or (C) member or members of the *Ejido* that have lived in the *ejido* more than a year, and are so recognized by the *Ejido*’s assembly (*avencindados*); or (ii) residing in a Community with either: (A) usufruct rights to land recognized by the Community’s assembly (*comuneros*); or (B) recognition of such assembly as a member of the Community (*avecindados*), all eligible to participate in the Project in accordance with the requirements of the Operational Manual;

(x) “Land Transaction” means the purchase or lease of usufruct rights by a JER, of lands owned by a landholder of an *Ejido* or Community, eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements of the Operational Manual;

(y) “Land Transaction Subloan” means a subloan made by FIFONAFE under Part B.2 (b) of the Project which is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements of the Operational Manual;

(z) “Land Transaction Subloan Agreement” means any of the agreements referred to in Section 3.01 (e) (ii) of this Agreement;

(aa) “*MANDATO* Contract” means the agreement referred to in Section 3.01 (d) of this Agreement;

(bb) “Model Form” means any of the forms of contracts referred to in Section 3.04 (a) (iii) of this Agreement;

(cc) “NAFIN” means *Nacional Financiera, S.N.C.* a Mexican development bank serving as the Borrower’s financial agent for purposes of the Loan;

(dd) “Official Gazette” means the Borrower’s *Diario Oficial de la Federación*;

(ee) “Operational Manual” means the manual referred to in Section 3.04 of this Agreement, approved by the Bank on July 5, 2005 as such manual may be amended from time to time by agreement between the Borrower and the Bank;

(ff) “Operation Rules” means the operation rules of the Borrower’s program of access to land for young farmers published in the Official Gazette on February 18, 2005 as the same may be amended by agreement with the Bank;

(gg) “PA” means *Procuraduría Agraria*, the Borrower’s *Procuraduría Agraria* established pursuant to the Agrarian Law, Title VII, Article 134;

(hh) “PA Cooperation Agreement” means the agreement referred to in Section 3.01 (g) of this Agreement;

(ii) “Participating State” means any of the following states of the Borrower: San Luis Potosi, Guerrero, Michoacán, Aguascalientes, Guanajuato, Sinaloa, Oaxaca, Sonora, Yucatan and Zacatecas or any other state as the Bank shall agree;

(jj) “PCU” means the unit referred to in Section 3.01 (c) of this Agreement;

(kk) “Pest Management Plan” means the pest management plan for the Project set forth in the Implementation Letter;

(ll) “Procurement Plan” means the Borrower’s procurement plan, dated June 14, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(mm) “Productive Subproject” means a subproject consisting of a set of on-farm and off-farm activities to be carried out by a JER and eligible for implementation under Part B.2 (a) of the Project in accordance with the criteria and other requirements of the Operational Manual;

(nn) “Productive Subproject Grant” means a grant made under Part B.2. (a) (i) of the Project which is eligible for financing out of the proceeds of the Loan in accordance with terms and procedures and eligibility criteria satisfactory to the Bank;

(oo) “Productive Subproject Grant Agreement” means any of the agreements to be entered into with a JER for purposes of a Productive Subproject Grant;

(pp) “Productive Subproject Subloan” means a subloan to be made under Part B.2 (a) (ii) of this Agreement which is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements of the Operational Manual;

(qq) “Productive Subproject Subloan Agreement” means any of the agreements referred to in Section 3.01 (e) (ii) of this Agreement;

(rr) “RAN” means *Registro Agrario Nacional*, the Borrower’s agrarian registry established by the Agrarian Law, Title VIII, Article 148;

(ss) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(tt) “Senior Landholder” means an individual aged 65 or older or of such age as the Operational Manual may allow, eligible for participating under Parts A.4, B.1 and B.4 of the Project in accordance with the requirements of the Operational Manual;

(uu) “SHCP” means *Secretaría de Hacienda y Crédito Público*, the Borrower’s Secretariat of Finance and Public Credit;

(vv) “Special Account” means the account referred to in Part B.1 of Schedule 1 to this Agreement;

(ww) “SRA” means *Secretaría de la Reforma Agraria*, the Borrower’s Secretariat of Agrarian Reform;

(xx) “Subproject” means collectively a Demonstration Subproject, a Productive Subproject, a Subproject Preparation TA Activity and a Subproject Implementation TA Activity;

(yy) “Subproject Implementation TA Activity” means a set of activities to be carried out by a JER under Part B.3. (a) of the Project, which activity is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(zz) “Subproject Implementation TA Grant” means a grant to be provided to a JER for the financing of a Subproject Implementation TA Activity, which grant is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements of the Operational Manual;

(aaa) “Subproject Implementation TA Grant Agreement” means any of the agreements referred to in Section 3.01 (i) of this Agreement;

(bbb) “Subproject Preparation TA Activity” means a technical assistance or training activity to be carried out by a JER under Part A.3 (a) of the Project, which activity is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(ccc) “Subproject Preparation TA Grant” means a grant to be provided to a JER for the financing of the costs of the Subproject Preparation Activities, which grant is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements of the Operational Manual;

(ddd) “Subproject Preparation TA Activity Grant Agreement” means any of the agreements referred to in Section 3.01 (i) of this Agreement; and

(eee) “TA” means technical assistance.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to FIFONAFE in respect of Parts A.3, B.2 (a) (i) and (ii), B.2 (b), B.3 and B.4 of the Project.

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 this Agreement, an amount equal to one hundred million Dollars (\$100,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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 for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods,

works, services, Grants, Land Transaction Subloans, and Productive Subproject Subloans, excluding Complementary Subproject Financing, required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan, and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

Section 2.03. The Closing Date shall be June 30, 2010 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan subject to any waiver as the Bank may agree. The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (a) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to, but not including, the fourth anniversary of such date; and (b) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (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 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 said 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 Section 2.01 (7) of 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 in respect of 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 such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. The *Director Internacional* of NAFIN, and any person or persons whom she or he shall designate in writing are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objective of the Project, and, to this end, shall:

- (a) through SRA, carry out the Project with the assistance of:
 - (i) FIFONAFE in respect of Parts A.3, B.2 (a) (i) and (ii), B.2 (b), B.3 and B.4 of the Project;
 - (ii) the Financing Agency in respect of Part B.2 (a) (iii) of the Project; and

- (iii) PA and RAN in respect of Part B.1 of the Project;

all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, technical and environmental practices, the Implementation Letter and the Approved POAs;

- (b) provide and cause to be provided promptly as needed, the funds, facilities, services and other resources required for the Project;

- (c) through SRA, maintain during the implementation of the Project, a Project coordination unit (PCU), with functions and responsibilities described in the Operational Manual;

- (d) through SHCP and SRA, enter into a contract with NAFIN (*MANDATO* Contract), satisfactory to the Bank, whereby:

- (i) 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;
- (ii) SRA agrees to: (A) carry out all Parts of the Project; and (B) to cause FIFONAFE to assist in the carrying out of Parts A.3, B.2 (a) (i) and (ii), B.2 (b), B.3 and B.4 of the Project, all according to the terms of this Agreement; and
- (iii) SRA and SHCP shall cooperate fully with NAFIN to ensure that NAFIN is able to comply with all of NAFIN's obligations referred to in paragraph (d) (i) of this Section;

- (e) through SRA, enter into an agreement, satisfactory to the Bank, with FIFONAFE (the FIFONAFE Agreement) such agreement to provide *inter alia* for:

- (i) FIFONAFE's obligation to assist in the carrying out of Parts A.3, B.2 (a) (i) and (ii), B.2 (b), B.3 and B.4 of the Project; evaluate, monitor and supervise the implementation of the Productive Subprojects financed by the Financing Agency with Complementary Subproject Financing, and enable the Borrower to discharge all the obligations assumed by the Borrower in

respect of such Parts of the Project, including those set forth in Articles III and IV of this Agreement; and

- (ii) FIFONAFE's obligation to enter into Land Transaction Subloan Agreements and Productive Subprojects Subloan Agreements with the JERs, substantially in accordance with the respective Model Form, such agreements to have terms and conditions satisfactory to the Bank and shall include *inter alia* the fiduciary, safeguard and other requirements set forth in the Operational Manual;

(f) through SRA or FIFONAFE, not later than six months after the Effective Date, enter into an agreement, satisfactory to the Bank, with the Financing Agency (the Financing Agency Agreement) whereby the Financing Agency will finance Productive Subprojects in accordance with the requirements for Complementary Subproject Financing set forth or referred to in the Operational Manual;

(g) through SRA or FIFONAFE, prior to the implementation of Part B.1 of the Project enter into an agreement or make other arrangements, satisfactory to the Bank, with PA to set forth the terms of PA's cooperation in the implementation of Part B.1 of the Project;

(h) through SRA not later than six months after the Effective Date, enter into an agreement or make other arrangements, satisfactory to the Bank, with CDI, to set forth CDI's obligations to cooperate in the implementation of the IPDP;

(i) through SRA, enter into a grant agreement with each JER carrying out a Demonstration Subproject, Subproject Preparation TA Activity, and Subproject Implementation TA Activity, or cause the JER to sign other legal instruments for such purpose, under terms and conditions substantially similar to those of the respective Model Form contained in the Operational Manual (the Demonstration Subproject Grant Agreement, the Subproject Preparation TA Grant Agreement, and the Subproject Implementation TA Grant Agreement), such agreements or legal instrument to provide for the obligation of the JER:

- (i) to carry out the Subproject as provided in the Operational Manual; and
- (ii) to comply, when applicable, with the environmental and social requirements applicable to the Subproject; and

- (j) (i) exercise its rights and carry out its obligations under the *MANDATO* Contract, and through SRA exercise its rights under the FIFONAFE Agreement, the PA Cooperation Agreement, the CDI Agreement, the Financing Agency Agreement and each of the Demonstration Subproject Grant Agreements, Subproject Preparation TA Grant Agreements and Subproject Implementation TA Grant Agreements, and cause FIFONAFE to exercise its rights and carry out its obligations under the FIFONAFE Agreement, and each of the Land Transaction Subloan Agreements and Productive Subproject Subloan Agreements, in such a manner as to protect the interests of the Bank and the Borrower and to accomplish the purposes of the Loan;
- (ii) except as the Bank may otherwise agree, not amend or fail to enforce any provision of the *MANDATO* Contract, the FIFONAFE Agreement, the PA Cooperation Agreement, the CDI Agreement, the Financing Agency Agreement and any of the Demonstration Subproject Grant Agreements, Subproject Preparation TA Grant Agreements and Subproject Implementation TA Grant Agreements, and cause FIFONAFE not to amend or fail to enforce any provision of the FIFONAFE Agreement, and each of the Land Transaction Subloan Agreements and Productive Subproject Subloan Agreements; and
- (iii) in case of any conflict between the terms of: (A) the *MANDATO* Contract, the FIFONAFE Agreement, the PA Cooperation Agreement, the Financing Agency Agreement and any of the Demonstration Subproject Grant Agreements, Subproject Preparation TA Grant Agreements, Subproject Implementation TA Grant Agreements, Land Transactions Subloan Agreements, Productive Subproject Subloan Agreements and Productive Subproject Grant Agreements; and (B) those of this Agreement, the terms of this Agreement shall prevail.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works, non-consultants' services and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall, through SRA, update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement plan, for the Bank's approval.

Section 3.03. The Borrower shall, through SRA:

(a) not later than February 28, 2006, propose to SHCP revisions needed for the Operation Rules in order:

- (i) to ensure the participation of indigenous peoples and respect the customary laws of such indigenous peoples in the implementation of the Project; and
- (ii) for consistency with the Environmental Management Plan, Pest Management Plan and the procedures in the Operational Manual applicable to forest harvesting under Productive Subprojects; and

(b) in its further revisions of the Operation Rules, take into account any changes that might be needed:

- (i) to meet the indicators set forth in the Implementation Letter; and
- (ii) to incorporate best practices and lessons learnt including those relating to debt/equity ratios for Productive Subproject Subloans, Complementary Subproject Financing and Land Transaction Subloans, contributions of JERs, and investment ceilings for Productive Subprojects and Land Transactions.

Section 3.04. (a) The Borrower shall through SRA carry out, and cause to be carried out, the Project in accordance with the Operational Manual, satisfactory to the Bank, which manual includes, *inter alia*:

- (i) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement, financial management and disbursement requirements thereof);
- (ii) (A) the Operation Rules including, *inter alia*, the criteria for the approval, implementation and monitoring of Subprojects and Land Transactions, and onlending terms; and (B) the social and

environmental requirements for Subprojects which shall be consistent with the documents referred to in (iv) below;

- (iii) a model contract each for implementation of Demonstration Subprojects, Productive Subprojects, and Subproject Preparation TA Activities, Subproject Implementation TA Activities and Land Transactions;
- (iv) the IPDP, Environmental Management Plan, Pest Management Plan and the procedures for approval and implementation of forest harvesting activities; and
- (v) the organization of the PCU.

(b) In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.05. The Borrower shall, through SRA, during the execution of the Project:

(a) maintain, and cause FIFONAFE in respect of Parts A.3, B.2 (a) (i) and (ii), B.2 (b), B.3 and B.4 of the Project to maintain, policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, and in accordance with the indicators set forth in the Implementation Letter, the carrying out of their respective Parts of the Project, and the achievement of its objective;

(b) furnish, and cause FIFONAFE in respect of Parts A.3, B.2 (a) (i) and (ii), B.2 (b), B.3 and B.4 of the Project to furnish, to the Bank, not later than April 30 and October 31 of each year, commencing April 30, 2006, a progress report on the execution of the Project during the calendar semester period immediately preceding the date of each such report, said report to be of such scope and detail as the Bank may reasonably request and to include the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section;

(c) carry out, jointly with the Bank and FIFONAFE not later than May 31 and November 30 of each year, commencing May 31, 2006 reviews of the progress of the Project and the attainment of Project objective on the basis of the reports referred to in paragraph (b) of this Section; and

(d) after each such review, take all measures required to ensure the efficient completion of the Project and the achievement of its objective, based on the conclusions

and recommendations of the said reports and reviews, and the Bank's views on the matter.

Section 3.06. The Borrower shall:

(a) by November 30 of each year during Project implementation, through SRA prepare, and cause FIFONAFE to prepare, and furnish to the Bank, for comments, the proposed preliminary operating plan and budget, satisfactory to the Bank, detailing the Project activities proposed to be carried out during the next succeeding year and the respective sources of funding therefore; and

(b) not later than March 31 of each year furnish to the Bank the final operating plan for such year (Approved POA).

Section 3.07. The Borrower shall through SRA, carry out, and cause CDI to carry out, the IPDP in accordance with its terms.

Section 3.08. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) through SRA, prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower through SRA shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to all Parts of the Project.

(b) The Borrower shall through SRA:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may 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 reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall through SRA:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.05 of this Agreement, the Borrower shall, through SRA prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) NAFIN shall have failed to comply with any of its obligations under the *MANDATO* Contract.

(b) FIFONAFE shall have failed to comply with any of its obligations under the FIFONAFE Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified namely that any event specified in paragraphs (a) or (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof has been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the *MANDATO* Contract has been executed on behalf of the Borrower and NAFIN.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank (by counsel to the parties to the *MANDATO* Contract) namely, that the *MANDATO* Contract has been duly authorized or ratified by the Borrower and NAFIN and is legally binding upon the Borrower and NAFIN in accordance with its terms.

Section 6.03. The date December 22, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.10 of this Agreement, the *Titular de la Unidad de Crédito Público* of SHCP 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:

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

Facsímile: 011-52-5559158-1156

With copy to SRA:

Secretaría de la Reforma Agraria
Av. Heroica Escuela Naval Militar No.701 2º. Piso
Col. Presidentes Ejidales, C.P. 04470
México, D.F.
México

Facsimile: 011- 52- 555695-5254

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.

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

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

UNITED MEXICAN STATES

By /s/ José Francisco Gil Díaz

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	Amount of the Loan Allocated (Expressed in <u>Dollars</u>)	% of Expenditures to be <u>Financed</u>
(1) Demonstration Subprojects Grants, Subproject Preparation TA Grants, goods, consultants' services, Training, Non-Consultant Services and Operational Costs for Part A of the Project	25,000,000	100%
(2) Land Transactions Subloans, Subproject Implementation TA Grants, Productive Subproject Subloans, consultants' services and Operational Costs for Part B of the Project	60,000,000	100%
(3) Goods, consultants services, Training and Operational Costs for Part C of the Project	3,000,000	100%
(4) Productive Subproject Grants	5,000,000	100%
(5) Unallocated	6,000,000	
(6) Front-end Fee	1,000,000	Amount due under Section 2.04 of this Agreement

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(7) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
TOTAL	<u>100,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “Operational Costs” means reasonable expenditures to carry out the Project such as travel and per diem costs for supervision activities of SRA’s staff, and personnel of FIFONAFE and of other participating agencies commissioned under the Project; salaries of support staff for the PCU and FIFONAFE; communication services (including Internet connectivity), maintenance of Project facilities, and equipment and vehicles; consumable materials and supplies, which would not have been incurred absent the Project;

(b) the term “Training” means non-consultancy expenditures incurred in connection with the provision of training, including training institution fees, logistics, materials, and the reasonable cost of travel and per diem of trainees; and

(c) the term “Non-consultant Services” means services for promotion, publicity and press advertisement under Part A of the Project.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$10,000,000, may be made on account of payments made for expenditures before that date but after January 1, 2005;

(b) payments made for expenditures for Part B.2 under Category (2) of the table in paragraph A.1 of this Schedule unless the FIFONAFE Agreement has been entered into; and

(c) payments for Productive Subproject Grants under Category (4) of the table in paragraph A.1 of this Schedule, unless the Bank shall have approved the

procedures of operation and the implementation arrangements (including inter-institution agreements with a financial institution or other agency as may be necessary and the Model Form for Productive Subproject Grant Agreement) for implementation of Part B.2 (a) (i) of the Project.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works, services of individual consultants and services of consulting firms for which prior review is not required pursuant to Section IV of Schedule 4 to this Agreement, and Operating Costs, Training, Land Transactions Subloans, productive Subproject Subloans and Grants, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may, through NAFIN request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall, through NAFIN submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may, for the purposes of the Project, cause NAFIN to open and maintain in Dollars a special deposit account on the Borrower's behalf either:

- (i) in the Borrower's Central Bank on terms and conditions satisfactory to the Bank;
- (ii) in NAFIN on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment; or
- (iii) in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set off, seizure or attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower, through NAFIN is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower, through NAFIN is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower, through NAFIN out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower, through NAFIN shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$10,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall through NAFIN furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall through NAFIN furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall through NAFIN furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower.

Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B

to

**SCHEDULE 1
Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the access of JERs with entrepreneurial potential to land and other productive assets in the Participating States, through the establishment of a beneficiary-driven efficient land transaction model, while at the same time facilitating the access of Senior Landholders to social welfare schemes.

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 objectives:

Part A: Capacity Building of JERs and Assistance to Senior landholders

1. Dissemination of the activities to be supported by the Project in the *Ejidors* and Communities of the Participating States through *inter alia* the carrying out of workshops where in particular the objectives, services and procedural rules of the Project will be explained in detail, and various options of productive subprojects will be identified and discussed.

2. (a) Implementation of activities to strengthen the JERs' capacity for implementation of selective productive activities, including technical and managerial training of the JERs and provision of stipends (*beca*) for the JERs participating in such activities (the Demonstration Subprojects or *Proyecto Escuela*) and financing of Demonstration Subproject Grants.

(b) Training of JERs involved in selected productive activities and the management thereof.

3. (a) Carrying out of technical assistance activities for the preparation of productive subprojects including *inter alia*, the profile, contract proposal and preliminary assessment of viability of such subprojects (the Subproject Preparation TA Activities) and financing of Subproject Preparation TA Grants.

(b) Provision of technical assistance managed by FIFONAFE as needed for the preparation of Productive Subprojects by JERs.

4. Provision of technical assistance and training to Senior Landholders and other landholders on the general objectives of the Project, the Land Transactions, and

Productive Subprojects, including information on different social welfare options for Senior Landholders.

Part B: Land Transactions and Productive Subprojects

1. Provision of legal advice to the JERs and, if needed, to the Senior Landholders and/or other land-holders on the procedures for the formalization of the necessary documents for Land Transactions.
2. (a) Implementation of on-farm and off-farm productive activities in *Ejido* or Community lands acquired or leased under the Project (the Productive Subprojects), and provision of:
 - (i) Productive Subproject Grants;
 - (ii) Productive Subproject Subloans; and
 - (iii) Complementary Subproject Financing.
- (b) Provision of Land Transaction Subloans.
3. (a) Carrying out of technical assistance activities, as needed, for the implementation of Productive Subprojects (the Subproject Implementation TA Activity) and provision of Subproject Implementation TA Grants.
 - (b) Provision of technical assistance managed by FIFONAFE as needed for the implementation of Productive Subprojects by JERs.
4. Carrying out of promotional activities for Senior Landholders that have agreed to Land Transactions of the social welfare schemes relevant to them.

Part C: Project Management and Monitoring and Evaluation

1. Establishment and operation of the PCU.
2. Development of a mentoring mechanism to better accompany the JERs in the identification and implementation of their Productive Subprojects and to assure their participation.

3. (a) Carrying out of a study to assess modalities of land access and security to be recognized to indigenous peoples residing in Communities to facilitate their participation in the Project.

(b) Carrying out of land policy and administration and other studies as the Borrower may propose and the Bank may agree.

* * *

The Project is expected to be completed by December 31, 2009.

SCHEDULE 3

Amortization Schedule

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 shall 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) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
On each May 15 and November 15 Beginning November 15, 2010 through May 15, 2020	5%

2. If the proceeds of the Loan shall not 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 as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made 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 3, if at any time the Bank shall adopt 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 principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said 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 principal amount of the Loan withdrawn and outstanding from time to time shall be 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.

SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods and Services (other than Consultants' Services)

1. Shopping. Except as provided in paragraphs 2 and 3 below, all goods shall be procured under contracts awarded on the basis of Shopping.

2. Direct Contracting. Goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

3. Commercial Practices. Goods, works and non-consultant services for Subprojects to be financed under Grants may be procured in accordance with commercial practices acceptable to the Bank and set forth in the Operational Manual.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant

Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

2. Commercial Practices. Services to be financed under Grants made for Subprojects under Parts A and B of the Project may be procured in accordance with commercial practices acceptable to the Bank and set forth in the Operational Manual.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. 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.