

CONFORMED COPY

LOAN NUMBER 2837 ME

Banxico Project Agreement

(Ninth Agricultural Credit Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

BANCO DE MEXICO

Dated July 31, 1987

LOAN NUMÁBER 2837 ME

BANXICO PROJECT AGREEMENT

AGREEMENT, dated July 31, 1987, between
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(the Bank) and BANCO DE MEXICO (Banxico).

WHEREAS (A) by the Loan Agreement of even date
herewith between Nacional Financiera, S.N.C. (the
Borrower) and the Bank, the Bank has agreed to make
available to the Borrower an amount in various currencies
equivalent to four hundred million dollars
(\$400,000,000), on the terms and conditions set forth in
the Loan Agreement, but only on condition that Banxico
agree to undertake such obligations toward the Bank as
are set forth in this Agreement;

(B) by a Guarantee Agreement to be entered into
between the United Mexican States (the Guarantor) and the
Bank, of even date herewith, a guarantee of the Loan has
been provided to the Bank on the terms and conditions set
forth in said Guarantee Agreement; and

WHEREAS Banxico, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Banxico declares its commitment to the objectives of the Project as set forth in Schedule 3 to the Loan Agreement, and to this end, shall carry out Parts A, C (i), D (i) and F of the Project, with due diligence and efficiency and in conformity with sound administrative, financial, industrial and agricultural practices, and shall provide, or cause to be provided, promptly as needed, all funds, facilities, services and other resources required by FIRA for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, Banxico shall enter into the contractual arrangements referred to in Section 2.02 (a) (ii) of the Guarantee Agreement. Except as the Bank shall otherwise agree, Banxico shall not change or fail to enforce any provision of such contractual arrangements.

(c) Banxico shall carry out the lending operations under Part A of the Project in accordance with sound operational policies and in conformity with the principles and procedures set forth in the Schedule to this Agreement and FIRA Lending Policies and Operating Manual.

Section 2.02. (a) Banxico shall cause, unless the Bank shall otherwise agree, all Sub-loans included in Part A of the Project to be made on terms whereby the Participating Bank shall obtain, by written contract with the Beneficiary or by other appropriate legal means, rights adequate to protect the interests of Banxico and the Participating Bank and to accomplish the purposes of the Project, including the right of the Participating Bank to: (i) require the Beneficiary to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical, financial, industrial, agricultural, and managerial standards and to maintain adequate records; (ii) require that: (A) the goods and services to be financed out of the proceeds of the Sub-loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor and, in the case of services, of their quality and the competence of the parties rendering them and, to the extent practicable, after evaluation and comparison of quotations from at least three suppliers,

and (B) such goods and services shall be used exclusively in the carrying out of the Sub-project; (iii) inspect, by itself or jointly with representatives of the Bank and Banxico if the Bank shall so request, such goods and the sites, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents; (iv) require that the Beneficiary shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with normal business practice; and that such insurance cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of Sub-loans to the place of use or installation, and that any indemnity thereunder be made payable in a currency freely usable by the Beneficiary to replace or repair such goods; (v) obtain all such information as Banxico or the Participating Bank shall reasonably request relating to the foregoing and to the administration, operation and financial condition of the Beneficiary; and (vi) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Sub-loan upon failure by such Beneficiary to perform any of its obligations under its contract with the Participating Bank.

(b) Banxico shall cause each Participating Bank to exercise its rights in relation to each Sub-loan in such manner as to: (i) protect the interests of the Bank and Banxico; (ii) comply with its obligations in respect of the corresponding Sub-loan; and (iii) achieve the purposes of the Project.

(c) Banxico shall not make available FIRA's credit facilities financed out of the proceeds of the Loan to any credit institution, other than those credit institutions which currently participate in carrying out the Prior Project as a Participating Bank, unless such credit institution has been considered eligible by the Bank as a Participating Bank.

(d) Banxico shall suspend the eligibility of any Participating Bank to make Sub-loans whenever the arrears under loans made by any such Participating Bank and discounted by FIRA exceed 15% of the aggregate outstanding amount of such loans.

Section 2.03. Banxico shall not make any Sub-loan under the Project in excess of the equivalent of eight hundred thousand dollars (\$800,000), or such other amount as shall be agreed between the Bank and Banxico, unless the Bank shall have approved the Sub-loan. When applying to the Bank for such approval, Banxico shall furnish to the Bank a description of the Subproject and such technical, economic and financial data regarding such Sub-project as the Bank shall reasonably request.

Section 2.04. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts C (i), D (i) and F of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 2.05. (a) Banxico shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of this Project Agreement and Parts A, C (i), D (i) and F of the Project.

(b) Without limitation to the provisions of said

Section

9.07 of the General Conditions, Banxico shall provide to the Bank semiannual reports, beginning on April 30, 1988, and thereafter through completion of the Project, on the progress of implementing Part A of the Project, including analysis of Sub-loan disbursements by categories of Beneficiaries and repayment of Sub-loans.

Section 2.06. Banxico shall: (a) at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan; and

(b) promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by Banxico of its obligations under this Agreement.

ARTICLE III

Management and Operations of FIRA

Section 3.01. Banxico shall carry on the operations and conduct the affairs of FIRA in accordance with sound administrative, financial and agricultural practices.

Section 3.02. Banxico shall take out and maintain with responsible insurers, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) Banxico shall maintain, or cause to be maintained, separate records and accounts adequate to reflect, in accordance with sound accounting practices, the operations and expenditures of FIRA in respect of the Project.

(b) Banxico shall:

- (i) have such accounts, including the financial statements (balance sheets, statements of income and expenses and related statements) of FIRA, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent and qualified auditors;
- (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: (A) a certified copy of its financial statements for such year as so audited and (B) the report of such 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 accounts and financial statements as well as the audit thereof and said records, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals are requested from the Loan Account on the basis of statements of expenditure, Banxico shall:

- (i) maintain, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for 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;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such separate accounts are included in the annual audits referred to in paragraph (b) of this Section and that the report thereof contains, in respect of such separate accounts, a separate opinion by said auditors as to whether the proceeds of the Loan withdrawn in respect of such expenditures have been used for the purpose for which they were provided.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of Banxico thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Banxico thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

1. Banxico, acting as trustee for FIRA, shall finance Sub-loans made by the Participating Banks. FIRA's determination of eligibility for such financing will be based primarily upon the appraisal as to technical feasibility and satisfactory return on investments. Each Sub-loan shall be appraised and approved by qualified technicians of, or acceptable to, FIRA before such Sub-loan is made. In addition, appraisals of Sub-projects shall be reviewed from time to time by FIRA, in order to determine that appraisals by such technicians show the technical, economic and financial viability of the Sub-projects and that the appraisals are in compliance with FIRA's Lending Policies and Operating Manual.

B. Lending Policies and Procedures

2. Banxico shall make available to the respective Participating Banks, promptly as needed, amounts sufficient to cover the balance remaining on each Sub-loan after the Participating Bank has made the required contribution in accordance with paragraph 3 below. The financing made available by Banxico to Participating Banks shall have the same payment terms regarding principal, interest and other charges as the Sub-loans financed, and shall be evidenced by negotiable instruments representing the Sub-loan to be financed, signed by the Beneficiaries.

3. In financing Sub-loans, the following rules shall apply:

(1) Category 1	10%	10%	up to 90%
(2) Category 2	20%	20%	up to 80%

4. No Sub-loan will be made to an individual Beneficiary for on-farm investment if the amount of the proposed Sub-loan together with the aggregate principal amount outstanding of Sub-loans made for on-farm investment to such Beneficiary and financed by FIRA exceeds the equivalent of \$260,000, or such other amount as shall be agreed between the Bank and Banxico. In case the Beneficiary is composed of a group of persons, such amount shall be multiplied by the number of members of such group.

5. The lending terms and grace periods shall be as set forth in the technical and financial plans for each Sub-project. Repayments of principal of Sub-loans shall range from 2 to 15 years and shall include grace periods of 1 to 3 years; provided however, that any Sub-loans made for a Sub-project under PVP shall not have a grace period and in calculating the economic rate of return for such Sub-project, capitalized interest shall be included in investment cost. In exceptional cases only and with the prior agreement of the Bank, repayment of principal for Sub-loans may extend for up to 20 years and, if not made under PVP, may include a grace period of up to 5 years.

6. Interest rates on Sub-loans shall be established and periodically readjusted in accordance with the provisions of the General Interest Rate Agreement. In financing Sub-loans made by Participating Banks, Banxico shall allow the following margins to such Participating Banks: (i) up to 10% of the Reference Rate (as that term is defined in the General Interest Rate Agreement, also known as "CPP") for the month preceding the making of the Sub-loan, or such other percentage of the Reference Rate

or percentage point margin as shall be agreed between the Guarantor and the Bank, with respect to Sub-loans to Category I Beneficiaries; and (ii) up to 10% of the Reference Rate for the month preceding the making of the Sub-loan, or such other percentage of the Reference Rate or percentage point margin as shall be agreed between the Guarantor and the Bank, with respect to Sub-loans to Category 2 Beneficiaries.

II. Short-term Sub-loan Policies and Procedures

1. The appraisal and approval of Sub-projects to be financed out of the proceeds of a Short-term Sub-loan and the supervision of the same shall be made in accordance with the FIRA Lending Policies and Operating Manual.

2. In financing Short-term Sub-loans, the interest rate to be charged to the Beneficiaries shall be as provided for in the General Interest Rate Agreement; repayment of principal shall not exceed two years.

3. In financing Short-term Sub-loans, the following rules shall apply:

(1) Category 1	10%	10%	up to 90%
(2) Category 2	20%	20%	up to 80%

4. Short-term Sub-loans to be financed out of the proceeds of the Loan shall be incremental to FIRA's total short-term lending for the previous year. By November 30 of each year, starting on November 30, 1987, FIRA will provide the Bank with an estimate of its incremental short-term lending for the subsequent year. Such amount shall be revised against FIRA's actual incremental Short-term Sub-loans financed under the Project during each such year, as audited, and any difference resulting therefrom shall be added to or subtracted from, the estimated amount to be financed out of the proceeds of the Loan as Short-term Sub-loans during the following year.

