

LOAN NUMBER 2918 ME

Guarantee Agreement

(Agricultural Sector Loan)

between

UNITED MEXICAN STATES

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated March 15, 1988

LOAN NUMBER 2918 ME

GUARANTEE AGREEMENT

AGREEMENT dated March 15, 1988, between UNITED MEXICAN STATES (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated February 25, 1988 (the Agricultural Sector Policy Letter), from the Guarantor describing a program of actions, objectives and policies designed to promote greater efficiency and higher productivity in the Guarantor's agricultural and agro-industrial sectors (hereinafter called the Program), declaring the Guarantor's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of imported goods required during such execution;

(B) on the basis, inter alia, of the foregoing, the

Bank has decided, in support of the Program, to provide such assistance to the Guarantor by making a loan in various currencies equivalent to three hundred million dollars (\$300,000,000) to Nacional Financiera, S.N.C. (the Borrower), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as provided in this Agreement;

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower and to undertake such other obligations as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985 (the General Conditions) with the modifications set forth in Section 1.01 of the Loan Agreement, 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, and Section 1.02 of, the Loan Agreement have the respective meanings therein set forth.

ARTICLE II

Guarantee; Transfer of Loan Proceeds

Section 2.01. The Guarantor hereby unconditionally guarantees, as primary obligor and not merely as surety, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the due and punctual performance of all the other obligations of the Borrower, as set forth in the Loan Agreement.

Section 2.02. The Guarantor shall enter into the contractual arrangements with the Borrower referred to in Section 3.01 of the Loan Agreement and, unless the Bank shall otherwise agree, shall not change or fail to enforce any provision of such contractual arrangements.

ARTICLE III

Other Covenants

Section 3.01. (a) The Guarantor and the Borrower, pursuant to Section 3.02 of the Loan Agreement, shall quarterly, and at the request of either party, exchange views with the Bank on the progress achieved in carrying out the Program, the Project and the actions specified in the Schedule to this Agreement.

(b) Not later than 10 days prior to each such exchange of views, the Guarantor shall furnish to the Bank a report, in such detail as the Bank shall reasonably request, on such progress achieved.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 3.03. The Guarantor shall provide or cause to be provided to the Borrower, in a timely manner, all documents and records in respect of the expenditures financed out of the proceeds of the Loan required to enable the Borrower to comply with the provisions of Section 4.01 of the Loan Agreement.

Section 3.04. The Guarantor shall:

(a) by May 31, 1988, provide terms of reference, satisfactory to the Bank for the study described in paragraph (a) of the Project described in Schedule 2 to the Loan Agreement; and

(b) by March 31, 1989, carry out, or cause to be carried out, the studies described in Part B of the Project described in Schedule 2 to the Loan Agreement, under terms of reference satisfactory to the Bank, and provide to the Bank, for its review and comments, the results of such studies.

ARTICLE IV

Representative of the Guarantor; Addresses

Section 4.01. The Director General de Credito Publico of the Secretaria de Hacienda y Credito Publico of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Direccion General de Credito Publico
Secretaria de Hacienda y Credito Publico
Palacio Nacional, Edificio 10, PB
06066 Mexico, D.F. Mexico

Telex:

1777313-SHDCME

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 440098 (ITT)
Washington, D.C. 248423

(RC) or

64145 (WUI)

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/ Eduardo Pesqueira Olea
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ S/ Shahid Husain
Regional Vice President
Latin America and the

Caribbean

SCHEDULE

Actions Referred to in Paragraph 3 (b)
of Schedule I to the Loan Agreement

(a) That the Guarantor shall have implemented a program of food assistance program, satisfactory to the Bank, targeted to reach low-income populations, including:

- (i) providing adequate levels of funding (about \$250 million equivalent in real terms) sufficient to address the needs of low-income populations resulting from the reduction, during the period 1983 through 1986, of global food Subsidies;
- (ii) revising eligibility criteria to ensure that such food assistance is received by low-income populations;
- (iii) providing to the Bank, a plan of action, satisfactory to the Bank, for introducing a nutritional monitoring program in both rural and urban areas;
- (iv) linking tortibono prices to prices for tortillas, in order to maintain in real terms, the subsidy received per recipient at levels not higher than those existing as of the Effective Date; and
- (v) introducing a pilot program of food assistance to low-income populations in rural areas;

(b) that the Guarantor shall have improved the financial condition of parastatal enterprises in the agricultural and agro-industrial sectors by reducing the role of such parastatals, as follows:

- (i) limiting transfers for operating losses during the 1988 Fiscal Year to less than the equivalent of \$85,000,000 (excluding transfers for food assistance programs to low-income populations, investment

and debt-service requirements) from the Guarantor to the Compania Nacional de Subsistencia Populares (the National Basic Foods Company of the Guarantor, hereinafter "CONASUPO");

- (ii) submitting to its Congress a budget proposal for the 1989 Fiscal Year which limits such transfers for operating losses to CONASUPO to no more than the amount referred to in subparagraph (i) above, in real terms;
- (iii) not introducing new global food subsidy program through institutions other than CONASUPO and its affiliates;
- (iv) closing, or relocating to low-income areas, 500 retail food outlets operated by DICCONSA, the retailing affiliate of CONASUPO;
- (v) liquidation of the wheat processing affiliate (TRICONSA) of CONASUPO;
- (vi) selling or closing of fifteen parastatal enterprises in the agricultural sector; and
- (vii) selling or closing of six sugar mills;

(c) that the Guarantor has completed, and discussed with the Bank, the results of the studies described in Part B of the Project;

(d) that the Guarantor shall not have imposed export controls, nor ORB for purposes of controlling domestic supply, on fruits and vegetables, except for hygienic or health reasons, and shall have encouraged farmer organizations to establish and control quality standards for exported fruits and vegetables;

(e) that the Guarantor has reduced ORB on imports of agricultural and agro-industrial products by 5% of total national production from the level of such production existing on November 30, 1986, such total production to be calculated in accordance with methods and on the basis of a time period acceptable to the Bank;

(f) that the Guarantor shall have: (i) adjusted, on a monthly basis, during 1988 and in accordance with the terms of the Pacto de Solidaridad Economica, the guarantee prices for agricultural crops, in order to maintain such prices in real terms, at the base prices prevailing on March 1, 1988; and (ii) after December 31, 1988, made further adjustments in the guarantee prices for wheat, rice, sorghum, soybeans, sunflower seeds, cotton seed, sesame seed, copra and barley to achieve prices within the range of between 10% below and 25% above international prices for such crops, or such other maximum percentage above international prices as shall be acceptable to the Guarantor and the Bank, based upon the results of the study referred to in paragraph (b), Part B of Schedule 2 to the Loan Agreement, as adjusted for transportation and processing costs and quality differences; the international prices and method of adjustment shall be determined in accordance with a methodology acceptable to the Guarantor and the Bank;

(g) that the Guarantor shall have provided to the Bank a plan of action, acceptable to the Bank, to implement a system of adequate charges for water used in agriculture for purposes of recovering operating and maintenance costs;

(h) that the Guarantor shall have established procedures to encourage and facilitate the disbursement of loans in support of agricultural investments from international agencies; and

(i) that the Guarantor shall have submitted to its Congress a proposed 1989 Fiscal Year budget for agriculture which exceeds the 1988 Fiscal Year agricultural bud gee by the equivalent of \$200 million in real terms, such budgeted funds to be made available to SARH as needed for the timely implementation of agricultural investments.

