

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7132-ME

Loan Agreement

**(Savings and Credit Sector Strengthening and Rural Microfinance Capacity
Building Technical Assistance Project)**

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated February 28, 2003

Public Disclosure Authorized

LOAN NUMBER 7132-ME

LOAN AGREEMENT

AGREEMENT, dated February 28, 2003, between UNITED MEXICAN STATES (the Borrower), represented by its signatory on page 14 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 (the Project), has requested the Bank to assist in the financing of the Project; and

WHEREAS (C) 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 (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) “BANSEFI” means *Banco del Ahorro Nacional y Servicios Financieros, S.N.C.*, a Mexican development bank serving as the Borrower’s financial agent for

purposes of the Loan and as the entity responsible for implementation of Parts A, C.1 and D.1 of the Project;

(b) “BANSEFI/SAGARPA Contract” means the contract referred to in Section 3.02 (a) of this Agreement;

(c) “CNBV” means the Borrower’s *Comisión Nacional Bancaria y de Valores* (National Banking and Securities Commission);

(d) “*Confederación*” means an entity, with its own legal personality, consisting of a voluntary association of *Federaciones* (as hereinafter defined) and charged by the Popular Savings and Credit Law (as hereinafter defined) with the responsibility of maintaining a deposit protection fund for the benefit of those who deposit their savings in *Entidades* (as hereinafter defined);

(e) “Core Team” means the administrative team within BANSEFI, referred to in paragraph 6 of Part A of Schedule 6 to this Agreement;

(f) “*Entidad*” means an SCI (as hereinafter defined) which, having met certain regulatory requirements, has been authorized by CNBV to operate as a popular savings and credit entity pursuant to the Popular Savings and Credit Law (as hereinafter defined);

(g) “Expansion Project Area” means the municipalities, identified in the Implementation Letter (as hereinafter defined) in at least six of the following eight geographical regions of the United Mexican States: (i) the State of Chiapas; (ii) the Huasteca area in the States of Hidalgo, San Luis Potosí and Veracruz; (iii) the State of Oaxaca; (iv) the State of Veracruz (excluding the Huasteca area therein); (v) the State of Guerrero (and adjacent economically marginal areas in the State of Morelos); (vi) the State of Michoacán (and adjacent economically marginal areas in the State of México); (vii) the State of Puebla (and adjacent economically marginal areas in the State of Tlaxcala); and (viii) the Sierra Gorda area in the States of Querétaro and Guanajuato;

(h) “*Federación*” means an entity, with its own legal personality, consisting of a voluntary association of SCIs (as hereinafter defined) and charged by the Popular Savings and Credit Law (as hereinafter defined) with the responsibility of exercising regulatory supervision, auxiliary to that exercised by CNBV, over SCIs;

(i) “FMR” means a financial monitoring report referred to in Section 4.02 of this Agreement;

(j) “Implementation Letter” means the letter of even date herewith, from BANSEFI and SAGARPA to the Bank, containing (i) the performance indicators for Project monitoring and evaluation, (ii) the list of municipalities that constitute the Expansion Project Area, (iii) the Social Development Model and (iv) the criteria for an SCI (as hereinafter defined) to qualify for participation in Part B of the Project;

(k) “IPDP” means each of the following indigenous peoples’ development plans: (i) SAGARPA’s (as hereinafter defined) March 2002 *Plan de Desarrollo de Pueblos Indígenas de las Huastecas*; (ii) SAGARPA’s (as hereinafter defined) March 2002 *Plan de Desarrollo de Pueblos Indígenas de Chiapas*; and (iii) any such plan prepared by SAGARPA (as hereinafter defined) for purposes of paragraph 3 (b) of Schedule 1 to this Agreement;

(l) “INI” means the Borrower’s *Instituto Nacional Indigenista* (National Indigenous Peoples Institute);

(m) “Popular Savings and Credit Law” means the Borrower’s *Ley de Ahorro y Crédito Popular* as published in the Borrower’s *Diario Oficial de la Federación* (Official Gazette) on June 4, 2001;

(n) “Project Operational Manual” means the manual referred to in paragraph 1 of Part A of Schedule 6 to this Agreement;

(o) “SAGARPA” means the Borrower’s *Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación* (Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Nutrition); the entity responsible for implementation of Parts B, C.2 and D.2 of the Project;

(p) “SCI” means a Mexican savings and credit institution which, independently of its corporative or other organizational form, is subject to the provisions of the Popular Savings and Credit Law;

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

(r) “Social Development Model” means a methodology for the consultative elaboration of IPDPs and for the extension of Project benefits to economically marginalized sectors of the population of the Expansion Project Area;

(s) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(t) "Technical Unit" means the unit referred to in paragraph 2 (f) of Part B of Schedule 6 to this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to BANSEFI and/or SAGARPA.

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 sixty four million six hundred thousand Dollars (\$64,600,000), 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. (a) 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 and services required for the Project 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.

(b) The Borrower may, for the purposes of the Project, cause BANSEFI to open and maintain in Dollars a separate special deposit account on the Borrower's behalf either (i) in the Borrower's Central Bank on terms and conditions satisfactory to the Bank, or (ii) with the Bank's prior written agreement, in BANSEFI or a commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 1, 2007 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 of the amount of the Loan. 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: (i) 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 (ii) 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 other charges shall be payable semiannually in arrears on March 15 and September 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 General* of BANSEFI, or the *Director General Adjunto de Finanzas* of BANSEFI, and any person or persons whom they shall jointly 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 objectives of the Project, and, to this end, shall:

(a) cause BANSEFI to carry out Parts A, C.1 and D.1 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and technical practices;

(b) carry out Parts B, C.2 and D.2 of the Project through SAGARPA, according to the terms, *inter alia*, of Part B of Schedule 6 to this Agreement and with due diligence and efficiency and in conformity with appropriate administrative, financial, and technical practices; and

(c) provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) The Borrower, through SHCP, and SAGARPA as co-executing agency, shall enter into a contract (*Contrato de Mandato*) with BANSEFI, satisfactory to the Bank, whereby:

(i) BANSEFI agrees to act as financial agent of the Borrower with regard to the Loan and entity responsible for the implementation of Parts A, C.1 and D.1 of the Project, meaning that, *inter alia*, BANSEFI agrees to: (A) 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 (B) carry out Parts A, C.1 and D.1 of the Project according to the terms of this Agreement (particularly, but not limited to, the terms of Article IV of, Schedules 4 and 5 to, and Part A of Schedule 6 to, this Agreement);

- (ii) SAGARPA agrees to carry out Parts B, C.2 and D.2 of the Project;
- (iii) the Borrower agrees that, through SHCP and SAGARPA as co-executing agency, the Borrower shall cooperate fully with BANSEFI to ensure that BANSEFI is able to comply with all of BANSEFI's obligations referred to in paragraph (a) (i) (A) of this Section and in Sections 4.01 and 4.02 of this Agreement as to consolidation of information provided by SAGARPA.

(b) The Borrower shall exercise its rights and carry out its obligations under the BANSEFI/SAGARPA Contract 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 BANSEFI/SAGARPA Contract. In case of any conflict between the terms of (i) the BANSEFI/SAGARPA Contract; and (ii) those of this Agreement, the terms of this Agreement shall prevail.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods 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.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) (i) through SAGARPA in respect of Parts B, C.2, and D.2 of the Project, prepare, and (ii) cause BANSEFI in respect of Parts A, C.1, and D.1 of the Project to 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 designed to ensure the continued achievement of their respective parts of the Project's objectives; and

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

Section 3.05. The Borrower shall cause CNBV to participate with BANSEFI in respect of Parts A and C.1 of the Project, in the exchange of views referred to in Section 3.04 (b) of this Agreement and in the periodic reviews referred to in paragraph 5 of Part A of Schedule 6 to this Agreement. As part of such participation, the Borrower shall cause CNBV to also collaborate in the preparation of the studies and reports referred to in paragraph 5 (d) of Part A of Schedule 6 to this Agreement.

Section 3.06. The Borrower, through SAGARPA, shall establish arrangements, satisfactory to the Bank, to ensure that INI provides its views to SAGARPA regarding implementation of Part B of the Project, which arrangements shall be maintained throughout the course of such implementation.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall:

- (i) (A) through SAGARPA in respect of Parts B, C.2 and D.2 of the Project, maintain; and
- (B) cause BANSEFI in respect of Parts A, C.1 and D.1 of the Project to maintain,

a financial management system each, including records and accounts; and

- (ii) (A) through SAGARPA in respect of Parts B, C.2 and D.2 of the Project prepare; and
- (B) cause BANSEFI in respect of Parts A, C.1 and D.1 of the Project to prepare,

financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to their respective parts of the Project.

(b) The Borrower shall:

- (i) through SAGARPA have, and shall cause BANSEFI to have, the records, accounts and financial statements referred to in paragraph (a) of this Section for each fiscal year respectively audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;
 - (ii) through SAGARPA furnish, and shall cause BANSEFI to 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) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested (including, as part of the information to be provided in the first such report, a management letter concerning BANSEFI's and SAGARPA's internal controls); and
 - (iii) through SAGARPA furnish, and shall cause BANSEFI to furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.
- (c) The Borrower shall cause BANSEFI:
- (i) to have the records and accounts for the Special Account for all Parts of the Project audited in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;
 - (ii) to consolidate the financial records and accounts, and audits thereof required under Section 4.01 (a) and (b) of this Agreement; and
 - (iii) to furnish such information to the Bank.
- (d) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall through SAGARPA, and shall cause BANSEFI to:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, or cause to be retained, 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 records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the progress reporting obligations set out in paragraph 5 of Part A of Schedule 6 to this Agreement and paragraph 3 of Part B of Schedule 6 to this Agreement, the Borrower shall: (i) through SAGARPA in respect of Parts B, C.2 and D.2 of the Project prepare; and (ii) cause BANSEFI in respect of Parts A, C.1 and D.1 of the Project to prepare, both in accordance with guidelines acceptable to the Bank, and furnish to the Bank a financial monitoring report each for their respective parts of the Project, in form and substance acceptable to the Bank, which:

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

(b) The Borrower shall cause BANSEFI to consolidate the information contained in the FMRs referred to in paragraph (a) of this Section.

(c) The first FMR by SAGARPA and BANSEFI, as well as the one consolidating both, shall be furnished to the Bank not later than 45 days after the end of the first calendar semester 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 semester; and thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

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) The Popular Savings and Credit Law or any part thereof or any regulations issued thereunder shall have been amended, suspended, abrogated, repealed, waived or not enforced so as to affect, in the opinion of the Bank, materially and adversely the carrying out of the Project.

(b) BANSEFI shall have failed to comply with any of its obligations under the BANSEFI/SAGARPA Contract.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

(a) Any event specified in Section 5.01 (a) of this Agreement shall occur.

(b) Any event specified in Section 5.01 (b) of this Agreement shall occur and shall continue for a period of thirty (30) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) the Project Operational Manual has been issued jointly by BANSEFI and SAGARPA;

(b) BANSEFI and SAGARPA have in place a financial management system (including trained personnel to support such system) each, satisfactory to the Bank, for purposes of compliance with Section 4.01 of this Agreement;

(c) the BANSEFI/SAGARPA Contract has been entered into between the Borrower (through SHCP and SAGARPA) and BANSEFI; and

(d) CNBV has issued regulations required to operationalize Articles 32 and 116 of the Popular Savings and Credit Law.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Borrower (in its legal opinion) and BANSEFI (in a separate legal opinion satisfactory to the Bank, issued by BANSEFI counsel acceptable to the Bank), indicate that the BANSEFI/SAGARPA Contract has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and BANSEFI and is legally binding upon the Borrower and BANSEFI in accordance with the BANSEFI/SAGARPA Contract's terms.

Section 6.03. The date May 29, 2003 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 *Director General de Crédito Público* of the Borrower's 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
Dirección General de Crédito Público
Palacio Nacional
Patio Central
3er piso, oficina 3010
Colonia Centro
06000 México, D.F.

Facsimile:

011-52-555-228-1156

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:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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

UNITED MEXICAN STATES

By /s/ Alonso García Tamés
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Isabel Guerrero
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods (excluding vehicles) for Part A.2 of the Project	3,749,770	85%
(2) Consultant services (except as covered by Category (3) below)		
(a) under Part A of the Project	29,976,000	100% of foreign expenditures; 83% of local expenditures
(b) under Part B of the Project:		
(i) for the Chiapas and Huasteca regions of the Expansion Project Area	6,100,000	100% of foreign expenditures; 83% of local expenditures
(ii) for Expansion Project Area regions other than the regions covered by sub-Category (i)	12,000,000	100% of foreign expenditures; 83% of local expenditures

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(c) other:		
(i) under Part C.1 of the Project	2,049,000	100% of foreign expenditures; 83% of local expenditures
(ii) under Part C.2 of the Project	729,000	100% of foreign expenditures; 83% of local expenditures
(iii) under Part D.1 of the Project	1,113,230	100% of foreign expenditures; 83% of local expenditures
(iv) under Part D.2 of the Project	717,000	100% of foreign expenditures; 83% of local expenditures
(3) Training under Parts A, B and D of the Project	545,000	100% of foreign expenditures; 83% of local expenditures
(4) Incremental operating costs:		
(a) incurred for the Core Team	1,913,000	85% through the end of 2004; 55% thereafter
(b) incurred for the Technical Unit	366,000	85% through the end of 2004; 55% thereafter

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(5) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(6) Fee	646,000	Amount due under Section 2.04 of this Agreement
(7) Unallocated	4,696,000	
TOTAL	<u>64,600,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “training” includes only: (i) reasonable travel, room, board and *per diem* expenditures incurred by trainees in connection with their training; (ii) reasonable fees charged by consultants serving as trainers; (iii) reasonable course fees charged by academic institutions; (iv) reasonable training facility and equipment rental expenses; and (v) reasonable training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph; and

(d) the term “incremental operating costs” includes reasonable recurrent expenditures incurred in connection with operation of the Core Team and/or the Technical Unit for rentals, travel, room, board and *per diem* expenditures, maintenance, consumable materials and supplies and utilities (but not including any salaries), which would not have been incurred absent 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 \$4,500,000, may be made on account of payments made for expenditures incurred after July 31, 2001 (but in no case incurred earlier than the twelve months immediately before the date of this Agreement); and

(b) payments for expenditures covered by disbursement category (2) (b) (ii), set forth in the table in paragraph 1 of this Schedule, unless an IPDP (and related plans derived from the Social Development Model), prepared in a manner and with contents satisfactory to the Bank, have been issued by SAGARPA for the corresponding Expansion Project Area region to be covered by the said category.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods under contracts costing less than \$500,000 equivalent each (with the exception of the first two such contracts procured pursuant to Part C.1 of Section I of Schedule 4 to this Agreement), for consultants' services provided by firms under contracts costing less than \$100,000 equivalent each (covered by Part F.2 of Section II of Schedule 4 to this Agreement), for consultants' services provided by individuals under contracts costing less than \$50,000 equivalent each (covered by Part F.2 of Section II of Schedule 4 to this Agreement) and for all training and incremental operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the financial stability and outreach capacity of SCIs throughout Mexico, with emphasis on those serving rural areas of the country, to thus contribute to the integration of low-income populations into the Mexican economy by increasing such populations' access to financial services and consequently aid in the realization of such populations' income-generating potential.

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: Strengthening of SCIs and of the Regulatory Supervision Thereof

1. (a) Carrying out of assessments of the financial and managerial condition of individual SCIs so as to determine whether an SCI qualifies for authorization by CNBV to operate as an *Entidad*, whether an SCI requires technical assistance for its strengthening or restructuring (such as by merger with another SCI) in order to qualify for such authorization, or whether an SCI should be liquidated; (b) provision of technical assistance to individual SCIs to support the design and implementation of institutional strengthening plans to allow them to qualify for such authorization; and (c) provision of technical assistance in support of the liquidation of unviable SCIs.
2. Design, establishment and operation of an information system in support of the SCI sector, to allow SCIs to generate and disseminate information for their own use and that of sector regulatory bodies such as CNBV.
3. Carrying out of a training program, for the staff of SCIs, focusing on the areas of finance, accounting, risk management, credit analysis and governance.
4. Provision of technical assistance and training to CNBV to strengthen its capacity to supervise the SCI sector and to aid in the development and adaptation of regulations required to support such supervision, as well as provision of technical assistance and training to *Federaciones* and *Confederaciones* in support of the auxiliary supervisory roles they play as a supplement to CNBV's overarching supervisory role.

Part B: Expansion of Financial Services in Rural Areas

1. Provision of technical assistance to individual SCIs to support the design and implementation of regional development plans to allow them to increase their financial services outreach to low-income rural populations within the Expansion Project Area that are underserved by the financial services sector (if necessary through the establishment of additional SCIs or through the establishment – – of new branch offices, in which case the new offices or additional SCIs may, as part of the technical assistance package, receive computer equipment and software supplied by the technical assistance providers).
2. Provision of training to low-income rural populations in the Expansion Project Area on basic principles of household finance and participation in financial transactions.

Part C: SCI Sector Studies, Monitoring and Information Dissemination

1. (a) Carrying out of studies regarding, *inter alia*, financial intermediation, sector performance and auxiliary supervision with a view to identify explanatory factors for performance, draw lessons from Project results and identify areas for improvement and innovation; (b) carrying out of a program, including workshops and information campaigns, to inform SCIs, their clients and other stakeholders of reforms in the SCI sector and to disseminate lessons from experience in the areas of microfinance, savings mobilization, and auxiliary supervision; and (c) carrying out of activities to monitor and evaluate Project implementation, development of the SCI sector, impact of sectoral reforms and performance of individual SCIs (including the carrying out – on a sample basis nationwide – of technical and financial audits of SCIs supported by the Project and periodic external evaluations of the sector carried out by Mexican and international consultants).
2. (a) Carrying out of studies of financial intermediation in rural areas and other areas underserved by the Mexican financial services sector, with a view to defining new financial methodologies adapted to local conditions; and (b) carrying out of activities, supplemental to those described in Part C.1 (c) above, to monitor and evaluate Project implementation, development of the SCI sector, impact of sectoral reforms and performance of individual SCIs (including the carrying out of technical and financial audits of all SCIs supported by Part B of the Project).

Part D: Project Management

1. Provision of technical assistance, training and material support to the Core Team in order to assist in its Project implementation functions.
2. Provision of technical assistance, training and material support to the Technical Unit in order to assist in its Project implementation functions.

* * *

The Project is expected to be completed by June 1, 2007.

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 (Expressed as a %)</u>
On each March 15 and September 15	
Beginning March 15, 2008 through September 15, 2017	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. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) To the extent practicable, contracts shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each.

(b) The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) The invitation to bid for each contract shall be advertised in the Borrower’s public electronic advertising and bidding system (*COMPRANET*) and in the Borrower’s Official Gazette (*Diario Oficial de la Federación*). The invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Provisions

1. Goods estimated to cost less than \$500,000 equivalent per contract or per bid package, up to an aggregate amount not to exceed \$1,900,000 equivalent, may be

procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, using standard bidding documents acceptable to the Bank.

2. Goods estimated to cost less than \$100,000 per contract or per bid package, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of national or international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract procured pursuant to Part B of this Section, as well as the first two contracts procured under Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Selection under a Fixed Budget

Services for carrying out financial and managerial assessments of individual SCIs under Part A.1 of the Project, as well as to support the design and implementation of regional development plans under Part B.1 of the Project, up to an aggregate amount not to exceed \$9,300,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

Part D: Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount not to exceed \$2,600,000 equivalent, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part E: Single Source Selection

Services which are estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part F: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, as well as with respect to each such contract of such cost covered by Parts C or E of this Section II, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, as well as with respect to each such contract of such cost covered by Parts C or E of this Section II, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply, except that the terms of reference related to such contracts are subject to prior approval by the Bank, absent which approval the respective contract cannot be financed by the Loan.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to \$4,000,000, to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$10,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, 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 furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule 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. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

- (b) if the Borrower 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 the records and accounts for the Special Account;

- (c) 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 the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, 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 allocated to the eligible Categories 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.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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 or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Project Implementation Arrangements

Part A:

The BANSEFI/SAGARPA Contract shall, *inter alia*, obligate BANSEFI to:

1. Issue an operational manual, jointly with SAGARPA and satisfactory to the Bank, setting forth rules and procedures for the carrying out of the Project, such manual to include, *inter alia*, models of the contracts and agreements referred to in paragraphs 3 (b) of this Part A and 2(b) of Part B of this Schedule, as well as detailed rules and procedures for procurement, record-keeping, accounting, auditing and general financial management of the Project (and to incorporate the municipalities list and *Entidad* qualification criteria set forth in the Implementation Letter).

2. Carry out Parts A, C.1 and D.1 of the Project in accordance with the terms of the Project Operational Manual, to the extent such terms are consistent with those of this Agreement (in case of any inconsistency between the terms of the Project Operational Manual and the terms of this Agreement, the terms of this Agreement shall prevail).

3. With respect to Part A.1 of the Project:

(a) select specialized institutions, according to the consultant selection methods set forth in Schedule 4 to this Agreement, to carry out the assessments and provide the technical assistance referred to in said Part A.1;

(b) contract in writing with said specialized institutions (using the model contract set forth in the Project Operational Manual) so that they: (i) carry out said assessments according to assessment guidelines prepared by CNBV; (ii) enter into a written agreement (using the model agreement set forth in the Project Operational Manual) with a *Federación* (and any of the *Federación*'s member SCIs willing to co-sign said agreement) to either (A) provide each such SCI with the technical assistance referred to in said Part A.1 in exchange for said SCI's commitment to implement SCI institutional strengthening plans set forth in such agreements and thus meet SCI semi-annual performance standards and targets also set forth in such agreements (which plans, standards and targets are consistent with the requirements that must be met in order for an SCI to qualify for CNBV authorization to operate as an *Entidad*) or (B) assist in each such SCI's liquidation if the prior assessment of the SCI established that the SCI is unviable; and (iii) suspend all technical assistance provision to an SCI at BANSEFI's

request if the SCI fails to meet its semi-annual performance standards and targets referred to above;

(c) pay said specialized institutions for the services they render under their contracts with BANSEFI referred to in paragraph 3 (b) of this Schedule;

(d) systematically monitor said agreements between said specialized institutions and the SCIs in order to verify compliance with said semi-annual performance standards and targets; and

(e) exercise its rights and carry out its obligations under its contracts, referred to in paragraph 3 (b) of this Schedule, with the specialized institutions also referred to therein, in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Loan;

4. With respect to Part A.2 of the Project, provide the services of the information system referred to therein to approximately 40 SCIs representing approximately 1000 branch offices throughout Mexico and gradually establish a fee-for-service regime whereby the full operating costs of the information system would be recoverable from SCIs by the end of the system's first five years of operation.

5. (a) Maintain policies and procedures adequate to enable BANSEFI to monitor and evaluate on an ongoing basis, in accordance with the performance indicators specified in the Implementation Letter, the carrying out of Parts A, C.1 and D.1 of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than six months after the Effective Date and every year thereafter during the period of Project implementation, annual reports integrating the results of the evaluation activities performed pursuant to subparagraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of such reports and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Bank shortly after such reports' preparation, the reports referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and taking into account the Bank's views on the matter;

(d) as part of the annual review to be held during 2004, as well as at the conclusion of Project implementation, discuss the results of in-depth and case studies, prepared by BANSEFI (with CNBV collaboration) separately for such review and thereafter for such conclusion under terms of reference satisfactory to the Bank, relating to Project and SCI sector performance; and

(e) participate in the reviews referred to in paragraph 3 of Part B of this Schedule; and

6. Maintain a team within BANSEFI throughout implementation of Parts A, C.1 and D.1 of the Project, with sufficient resources and staff in numbers and with qualifications and experience satisfactory to the Bank, acting under terms of reference satisfactory to the Bank to support the execution of such Parts.

Part B:

1. SAGARPA shall issue the Project Operational Manual jointly with BANSEFI and carry out Parts B, C.2 and D.2 of the Project in accordance with the terms of the Project Operational Manual, to the extent such terms are consistent with those of this Agreement (in case of any inconsistency between the terms of the Project Operational Manual and the terms of this Agreement, the terms of this Agreement shall prevail).

2. With respect to Parts B, C.2 and D.2 of the Project, SAGARPA shall:

(a) select specialized institutions, according to the consultant selection methods set forth in Schedule 4 to this Agreement, to provide the technical assistance, training, computer equipment and software referred to in Part B of the Project;

(b) contract in writing with said specialized institutions (using the model contract set forth in the Project Operational Manual) so that they: (i) enter into a written agreement (using the model agreement set forth in the Project Operational Manual) with a qualifying SCI to provide each such SCI and relevant populations in the area served by the SCI with the technical assistance and training, respectively, referred to in said Part B in exchange for said SCI's commitment to implement a regional development plan referred to in said Part B according to annual performance standards and targets also set forth in such agreements; and (ii) suspend all technical assistance provision to an SCI at SAGARPA's request if the SCI fails to meet its annual performance standards and targets referred to above;

(c) pay said specialized institutions for the services they render under their contracts in paragraph 2 (b) of this Part B;

(d) systematically monitor said agreements between said specialized institutions and each SCI in order to verify compliance with said annual performance standards and targets;

(e) exercise its rights and carry out its obligations under its contracts, referred to in paragraph 2 (b) of this Part B, with the specialized institutions also referred to therein, in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Loan;

(f) maintain a unit within SAGARPA throughout implementation of Parts B, C.2 and D.2 of the Project, with sufficient resources and staff in numbers and with qualifications and experience satisfactory to the Bank, acting under terms of reference satisfactory to the Bank to support the execution of such Parts (the Technical Unit to be led throughout such implementation by a full-time coordinator reporting directly to SAGARPA's *Subsecretario de Desarrollo Rural* (Rural Development Subsecretary); and

(g) ensure that the IPDP and Social Development Model for each of the six regions of the Expansion Project Area is carried out for the region in question as part of the implementation of Part B of the Project (through, *inter alia*, integration of IPDP outcomes into the standards and targets referred to in paragraph 2 (b) of this Part B).

3. SAGARPA shall:

(a) maintain policies and procedures adequate to enable SAGARPA to monitor and evaluate on an ongoing basis, in accordance with the performance indicators specified in the Implementation Letter, the carrying out of Parts B, C.2 and D.2 of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than six months after the Effective Date and every year thereafter during the period of Project implementation, annual reports integrating the results of the evaluation activities performed pursuant to subparagraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of such reports and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank shortly after such reports' preparation, the reports referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and taking into account the Bank's views on the matter.

