

**CONFORMED COPY**

**LOAN NUMBER 7973-MX**

# **Loan Agreement**

**(Water Utilities Efficiency Improvement Project)**

**between**

**UNITED MEXICAN STATES**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated June 14, 2011**

**LOAN NUMBER 7973-MX**

**LOAN AGREEMENT**

Agreement dated June 14, 2011, between UNITED MEXICAN STATES (“Borrower”) as represented by its Ministry of Finance and Public Credit, and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 1 to this Agreement (“Project”), has requested the Bank to assist in financing the Project.

WHEREAS the Borrower has informed the Bank that the proceeds of the Loan (as set forth in the table of Section IV of Schedule 2 to this Agreement and for purposes of supporting the Project) shall be used in conformity with the requirements of the Borrower’s income, budgetary and public debt laws and the terms of this Agreement, the Borrower and the Bank hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of 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 2.07 of this Agreement (“Loan”), to assist in financing the Project.
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. Unless the Borrower’s representative designated in Section 6.01 of this Agreement otherwise informs the Bank, the Borrower’s representative for purposes of taking any action

required or permitted to be taken pursuant to this Section is the *Director General* of BANSEFI, the *Director General Adjunto de Banca Institucional* of BANSEFI or any person or persons whom such representative shall designate in writing.

- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.07.
  - (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
  - (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
  - (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to

itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

### **ARTICLE III — PROJECT**

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower, through CONAGUA (with the assistance of the PWUs) shall carry out the Project in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — REMEDIES OF THE BANK**

- 4.01 The Additional Event of Suspension consists of the following, namely, that BANSEFI shall have failed to perform any of its obligations under the *Contrato de Mandato*.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that the one of the events specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
  - (a) the *Contrato de Mandato* has been duly executed by the parties thereto; and
  - (b) the Borrower, through separate legal opinions satisfactory to the Bank, issued by Borrower counsel acceptable to the Bank, from SHCP and CONAGUA, and BANSEFI (in a separate legal opinion satisfactory to the Bank, issued by BANSEFI counsel acceptable to the Bank), indicates that the *Contrato de Mandato* 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 *Contrato de Mandato's* terms.

- 5.02 Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on May 9, 2012.

#### **ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. Except as set forth in Section 2.02 of this Agreement, the Borrower's Representative is the *Titular de la Unidad de Crédito Público* of SHCP.
- 6.02. The Borrower's Address for the purposes of Section 10.01 of the General Conditions:

Secretaría de Hacienda y Crédito Público  
Unidad de Asuntos Internacionales de Hacienda  
Insurgentes Sur 1971, Torre III, Piso 3  
Col. Guadalupe Inn, 01020  
Delegación Álvaro Obregón, México D.F.

Facsimile: 011-52 55325-69291216

- 6.03. The Bank's Address is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Mexico City, United Mexican States, as of the day and year first above written.

UNITED MEXICAN STATES

By /s/ Alejandro Díaz de León  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gloria M. Grandolini  
Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to improve the efficiency of Participating Water Utilities through the provision of technical assistance and Financing.

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 objective:

#### **Part 1: Water Supply and Sanitation Sector Information and Knowledge Management Improvement**

Improving water supply and sanitation institutions' capacity with regards to efficiency improvement, through the provision of the necessary goods, Training, Non-Consultant Services, consultants' services, and Operating Costs to CONAGUA to enable it to carry on: (a) management of information activities; and (b) management of knowledge activities.

#### **Part 2: Modernization of the services of Participating Water Utilities**

- (a) Provision of support for the carrying out of diagnostic studies, preparation of investment plans and support for the efficiency improvement of PWUs, through the provision of Financing to PWUs for the implementation of Technical Assistance Subprojects.
- (b) Provision of support for the carrying out of Physical Efficiency Investments and Commercial Efficiency Investments, through the provision of Financing to PWUs for the implementation of Efficiency Subprojects.
- (c) Provision of support for the carrying out of Physical Efficiency Investments and Commercial Efficiency Investments, through Output-based disbursements to Eligible PWUs, for the implementation of pilot Output-based Subprojects.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

The Borrower shall maintain at all times during Project implementation, CONAGUA's WSSU Institutional Strengthening Unit, with staff, structure and functions satisfactory to the Bank, responsible for the management, coordination, supervision, monitoring and evaluation of the Project, including, without limitation, the carrying out, in collaboration with PWUs and BANSEFI, as set forth in the Operational Manual, of procurement and financial management activities under the Project, together with the responsibility for the preparation of the financial statements, financial reports Project Reports, and maintenance of the records and accounts referred to in Section II of Schedule 2 to this Agreement.

##### B. *Contrato de Mandato*

1. The Borrower, through SHCP, shall enter into a contract (*Contrato de Mandato*), satisfactory to the Bank, among SHCP, CONAGUA and BANSEFI, whereby, *inter alia*:
  - (a) BANSEFI agrees to act as financial agent of the Borrower with regard to the Loan, meaning that, *inter alia*, BANSEFI 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;
  - (b) BANSEFI agrees to abide by the Anti-Corruption Guidelines;
  - (c) the Borrower, through CONAGUA, agrees to carry out the Project in accordance with the provisions of this Agreement, the Anti-Corruption Guidelines, the Operational Manual (including the Project's financial management and procurement arrangements) and OBD Operational Manual;
  - (d) the Borrower, through SHCP, shall have the right to, in case of fraud or corruption (as defined in the Anti-Corruption Guidelines) provide for the early termination of the *Contrato de Mandato*, or temporarily suspend its effects, or, if applicable, require the restitution of funds transferred to BANSEFI under said *Contrato de Mandato*; and



- (e) the Borrower, through CONAGUA, agrees to cooperate fully with BANSEFI to ensure that BANSEFI is able to comply with all of BANSEFI's obligations referred to in Section I.B.1 (a) and (b) herein.
2. The Borrower shall exercise its rights and carry out its obligations under the *Contrato de Mandato* in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Loan. The Borrower shall not amend, waive or fail to enforce the *Contrato de Mandato* or any provision thereof, except as the Bank may otherwise agree. In case of any conflict between the terms of the *Contrato de Mandato* and those of this Agreement, the terms of this Agreement shall prevail.

**C. Safeguards and Operational Manuals**

Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank may otherwise agree, the Borrower shall carry out the Project in accordance with the provisions of:

- (a) the Environmental and Resettlement Framework;
- (b) the Operational Manual, satisfactory to the Bank, which shall contain, *inter alia*, specific provisions on detailed arrangements for the carrying out of the Project, including: (i) the procedures for the carrying out, monitoring and evaluation of the Project; (ii) the Project procurement, financial management and audit requirements and procedures; (iii) the criteria for the approval, implementation and monitoring of the Subprojects; (iv) the institutional arrangements for the Project; (v) the detailed eligibility criteria and procedures for selecting the PWUs; (vi) the model form of Subproject Agreements (*Anexo Técnico*); (vii) the Environmental and Resettlement Framework, containing the environmental guidelines for construction, including procedures to follow in case of unexpected findings of objects with possible cultural or archeological value; as well as the processes to identify and adequately address resettlement cases should they occur; and (viii) the performance indicators for the Project; and
- (c) the OBD Operational Manual, satisfactory to the Bank, which shall contain, *inter alia*, specific arrangements for the carrying out of Part 2 (c) of the Project, including but not limited to: (i) the detailed eligibility criteria and procedures for identifying the Selected PWUs; (ii) the criteria for the approval and implementation of Output-based Subprojects; (iii) the procurement, financial management and audit requirements and procedures for the component; (iv) the methodology to determine the Unit Cost to be paid on the basis of: (A) cubic meter of

water saved per month (m<sup>3</sup>/month over a given baseline), for Physical Efficiency Investments; (B) kilowatt of electricity saved per cubic meter produced per month (kWh/m<sup>3</sup>/month) over a given baseline, for energy efficiency improvements activities; and (C) additional cubic meters billed on the basis of metered volume (m<sup>3</sup>/month) over a given baseline, for Commercial Efficiency Investments, all being subject to periodic evaluations and/or reassessments to be agreed between the Bank and the Borrower; (v) the terms of reference for the hiring of the technical consultant carrying out the independent technical audit of Part 2 (c) of the Project; (vi) the flow of funds under the component; (vii) the implementation, monitoring (including monitoring indicators) and auditing mechanisms to be used for the implementation of Part 2(c) of the Project; (viii) the model form of Output-based Subproject Agreements (*Anexo Técnico*), which shall require, *inter alia*, the inclusion of applicable Outputs eligible for financing under each Output-based Subproject Agreement; and (ix) the provisions for the carrying out of periodical reviews of Outputs and unit costs at intervals acceptable to both the Borrower and the Bank, as well as methodology for adjustments of said inputs and unit costs after such reviews, as necessary.

Except as the Bank shall otherwise agree, the Borrower shall not amend, waive or fail to enforce any provision of the Operational Manual or the OBD Operational Manual without the Bank's prior written consent. In case of any conflict between the terms of the Operational Manual and the OBD Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

**D. Anti-Corruption**

The Borrower shall, and shall cause Eligible PWUs, to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**E. Subprojects**

For the purposes of carrying out Parts 2 (a), (b) and (c) of the Project, the Borrower, through CONAGUA, shall:

- (1) after having selected a Technical Assistance Subproject, an Efficiency Subproject, or an Output-based Subproject, as the case may be, in accordance with the guidelines and procedures set forth in the Operational Manual (for Technical Assistance and Efficiency Subprojects) and in the OBD Operational Manual (for Output-based Subprojects), enter into an agreement with an Eligible PWU (the Technical Assistance Subproject Agreement, the Efficiency Subproject Agreement, and the Output-based Subproject Agreement, respectively), under terms and conditions acceptable to the Bank, for the provision of

Financing for the implementation of a Technical Assistance Subproject, an Efficiency Subproject or an Output-based Subproject, as the case may be; and

- (2) exercise its rights under each Technical Assistance Subproject Agreement, Efficiency Subproject Agreement or Output-based Subproject Agreement, as the case may be, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce any Technical Assistance Agreement, Efficiency Subproject Agreement, or Output-based Subproject Agreement or any provision thereof.

## **Section II. Project Monitoring Reporting and Evaluation**

### **A. Project Reports**

The Borrower, through CONAGUA, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the Performance Indicators included in the Operational Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than ninety (90) days after the end of the period covered by such report.

### **B. Financial Management, Financial Reports and Audits**

1. The Borrower, through CONAGUA, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower, through CONAGUA, shall prepare and furnish to the Bank, as part of the Project Report, not later than forty five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the pertinent semester, in form and substance satisfactory to the Bank.
3. The Borrower, through CONAGUA shall have the Financial Statements of the Project audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be: (a) furnished to the Bank not later than six months after the end of such period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.

### **Section III. Procurement**

#### **A. General**

1. **Goods, Works and Services (other than Consultants' Services).** All goods, works and Services (other than consultants' services) required for the Project and to be financed with an amount equivalent to the amount in Dollars provided under the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed with an amount equivalent to the amount in Dollars provided under the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.
4. **Special Provisions.** The Borrower, through CONAGUA, shall: (a) supply the SEPA with the information contained in the initial Procurement Plan within 30 days after the Project has been approved by the Bank; and (b) update the Procurement Plan at least once a year, or as required by the Bank, to reflect the actual Project implementation needs and progress and supply the SEPA with the information contained in the updated Procurement Plan immediately thereafter.

#### **B. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)**

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

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting, subject to the Bank's prior written consent

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan and the Operational Manual shall specify the circumstances under which such methods may be used.

<b><u>Procurement Method</u></b>
(a) Selection under a Fixed Budget
(b) Least-Cost Selection
(c) Single Source Selection, subject to the Bank's prior written consent.
(d) Procedures set forth in paragraphs 5.2, 5.3 and 5.4 of the Consultant Guidelines for the selection of Individual Consultants

**D. Review by the Bank of Procurement Decisions**

The Procurement Plan and the Operational Manual shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

**Section IV. Withdrawal of Loan Proceeds**

**A. General**

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank may specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions).
2. The Bank shall, on behalf of the Borrower, withdraw from the Loan Account on or after the Effective Date and pay to itself the Front-end Fee payable pursuant to Section 3.01 of the General Conditions. The remaining proceeds of the Loan

shall be disbursed in Dollars unless otherwise agreed between the Borrower and the Bank and so reflected in the additional instructions referred in Section IV.A.1 immediately above. Consistent with Section 2.05 of the General Conditions, the Borrower shall use an amount equivalent to the amount in Dollars provided under the Loan Agreement to finance Eligible Expenditures.

3. The following table specifies the categories of Eligible Expenditures that may be financed with an amount equivalent to the amount in Dollars provided under the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<b><u>Category</u></b>	<b><u>Amount of the Loan Allocated (expressed in USD)</u></b>	<b><u>Percentage of Expenditures to be financed (inclusive of Taxes)</u></b>
(1) Goods, Training, Non-Consultant Services, consultants’ services and Operating Costs under Part 1 of the Project	4,750,000	100%
(2) Goods, works, Non-Consultant Services, consultants’ services, Operating Costs and Training financed through: (a) Technical Assistance Subprojects under Part 2 (a) of the Project (b) Efficiency Subprojects under Part 2 (b) of the Project	5,000,000 87,000,000	100%
(3) Output-based Subprojects under Part 2 (c) of the Project	3,000,000	100% of the actual Outputs at the applicable Unit Cost included in the respective Output-based Subproject Agreement ( <i>Anexo Técnico</i> )
(4) Front-end fee	250,000	Amount payable pursuant to Section 2.03 of this Loan Agreement, in accordance with Section 2.07 (b) of the General Conditions
(5) <i>Premia</i> for Interest Rate Caps and Interest Rate Collars	0	Amounts due under Section 2.07 (c) of the Loan Agreement
<b>TOTAL AMOUNT</b>	<b>100,000,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments:
  - (a) made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed USD\$20,000,000 equivalent may be made for payments made prior to this date but after June 1st, 2010 but in no case made more than twelve (12) months prior to the date of this Agreement; and
  - (b) made under Category (3) of the table in Section IV A. 3 of this Schedule, until and unless: (i) the OBD Operational Manual has been adopted by the Borrower, through CONAGUA, and is satisfactory to the Bank; and (ii) at least one Output-based Subproject Agreement (*Anexo Técnico*) shall have been entered into between the Borrower, through CONAGUA, and the Eligible PWU.
2. The Closing Date is December 31, 2014.

**Section V. Access to Information**

The Bank may disclose the Legal Agreements and any information related to the Legal Agreements in accordance with its policy on access to information, in effect at the time of such disclosure.

### **SCHEDULE 3**

#### **Amortization Schedule**

The Borrower shall repay the principal amount of the Loan in full on October 15, 2022.



## APPENDIX

### Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, with the modifications set forth in Section III of this Appendix.
2. “BANSEFI” means *Banco del Ahorro Nacional y Servicios Financieros, Sociedad Nacional de Crédito* a Mexican development bank serving as the Borrower’s financial agent for purposes of the Loan.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “CONAGUA” means *Comisión Nacional del Agua*, the Borrower’s National Water Commission.
5. "Commercial Efficiency" means the ratio between the monetary amount billed to end users by an Eligible PWU and the monetary amount collected by such Eligible PWU over a given one year period.
6. “Commercial Efficiency Investments” means the activities to be carried out by an Eligible PWU under an Output-based Subproject Agreement aimed at increasing its Commercial Efficiency, including (i) the updating of the customer billing registry and system; (ii) the installation of individual water meters; (iii) the improvement to client attention systems; and/or (iv) any of the activities described in the ODB Operational Manual.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006 and May 2010.
8. “*Contrato de Mandato*” means the Agreement to be entered into among the Borrower, through SHCP, CONAGUA and BANSEFI, pursuant to Section I.B.1 of Schedule 2 to this Agreement.
9. “Efficiency Subproject” means a subproject to be carried out by an Eligible PWU, identified and prioritized by the Borrower, through CONAGUA, and approved in accordance with the criteria and procedures set forth in the Operational Manual, for the financing of a wide variety of Physical Efficiency Investments and Commercial Efficiency Investments identified in the Operational Manual, and referred to in Part 2 (b) of the Project.

10. “Efficiency Subproject Agreement” means the memorandum of understanding (*Anexo Técnico*) to be entered into between the Borrower, through CONAGUA, and an Eligible PWU, as specified in Section I.E. of Schedule 2 to this Agreement for the provision of Financing under Part 2 (b) of the Project, following a model agreement to be included in the Operational Manual.
11. “Eligible PWUs” means a public or private water utility operating in the Borrower’s territory, that meets the criteria set forth in the respective Operational Manual to implement Technical Assistance Subprojects, Efficiency Subprojects and Output-based Subprojects under Parts 2 (a), (b) and (c) of the Project, respectively.
12. “Environmental and Resettlement Framework” means the framework prepared by the Borrower, through CONAGUA, dated June 30, 2010, published and available to the public on July 2<sup>nd</sup>, 2010, which sets out the environmental protection measures in respect of the Project, including: (i) an environmental screening checklist for Project interventions; (ii) environmental supervision, monitoring and evaluation procedures for the Project; and (iii) procedures for the involuntary resettlement screening.
13. “Financing” means a financial transfer from the Borrower to the Eligible PWU, on a periodic basis, for: (a) in the case of Technical Assistance and Efficiency Subprojects, the payment of goods, works and services required for their implementation; and (b) in the case of Output-based Subprojects, the payment of Outputs.
14. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
15. “Non-Consultant Services” means services which are bid and contracted on the basis of performance of a measurable physical output, such as household surveys, meter reading, and topographical surveys.
16. “Operating Costs” means the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, *per diem* and supervision costs, as well as salaries of locally contracted employees.
17. “Operational Manual” means the manual dated October 4, 2010 and referred to in Section I.C. (b) of Schedule 2 to this Agreement, as said manual may be amended from time to time with the Bank’s prior approval.

18. “Output” means any of the outputs eligible for financing out of the proceeds of the Loan to be included as part of each Output-based Subproject Agreement for each Output-based Subproject and in the numbers and typology included in the respective Output-based Subproject Agreements.
19. “Output-based disbursement Operational Manual or OBD Operational Manual” means the manual referred to in Section I.C. (c) of Schedule 2 to this Agreement as said manual may be amended from time to time with the Bank’s prior approval.
20. “Output-based Subproject” means a subproject identified and prioritized by the Borrower, through CONAGUA, and approved in accordance with the criteria and procedures set forth in the OBD Operational Manual, for the financing of specific Physical Efficiency Investments and Commercial Efficiency Investments identified in the OBD Operational Manual, and referred to in Part 2 (c) of the Project.
21. “Output-based Subproject Agreement” means the memorandum of understanding (*Anexo Técnico*) to be entered into between the Borrower, through CONAGUA, and an Eligible PWU, as specified in Section I.E. of Schedule 2 to this Agreement for the provision of Financing for an Output-based Subproject (through Output-based disbursements) under Part 2 (c) of the Project, following a model agreement to be included in the OBD Operational Manual.
22. "Physical Efficiency" means the ratio between the volume of water billed to end users by an Eligible PWU and the volume of water produced by such Eligible PWU over a given one year period.
23. “Physical Efficiency Investments” means the activities to be carried out by an Eligible PWU under an Efficiency Subproject Agreement aimed at increasing its Physical Efficiency, including (i) the detection and reparation of water leaks; (ii) the implementation of district metering areas; (iii) the installation of source and district-level meters; (iv) the rehabilitation of network infrastructure; and/or (v) any of the activities described in the Operational Manual.
24. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006 and May 2010.
25. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated August 6, 2010, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

26. “PWU” means participating water utility.
27. “SEPA” means the Bank’s publicly accessible Procurement Plans Execution System.
28. “SHCP” means *Secretaría de Hacienda y Crédito Público*, the Borrower’s Ministry of Finance and Public Credit.
29. “Technical Assistance Subprojects” means a subproject to be carried out by an Eligible PWU, identified and prioritized by the Borrower, through CONAGUA, and approved in accordance with the criteria and procedures set forth in the Operational Manual, for the financing of diagnostic studies, preparation of investment plans and provision of support for the efficiency improvement of PWUs, all identified in the Operational Manual, and referred to in Part 2 (a) of the Project.
30. “Technical Assistance Subproject Agreements” means the memorandum of understanding (*Anexo Técnico*) to be entered into between the Borrower, through CONAGUA, and an Eligible PWU, as specified in Section I.E. of Schedule 2 to this Agreement for the provision of Financing under Part 2 (a) of the Project, following a model agreement to be included in the Operational Manual.
31. “Training” means: (i) reasonable travel, room, board and per diem expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators, including therein workshops, conferences and study tours; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses.
32. “Unit Cost” means the unit cost of goods, works, Operating Costs, Non-Consultant Services and consultants’ services required for implementation of each of the Outputs of a Output-based Subproject in a typology specified in each of the Output-based Subproject Agreements, all as set forth in the OBD Operational Manual and the Output-based Subproject Agreement.
33. “WSSU” means water supply and sanitation utility.
34. “WSSU Institutional Strengthening Unit” means the *Gerencia de Fortalecimiento de Organismos Operadores*, the unit within CONAGUA referred to in Section I.A of the Loan Agreement.

## **Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. Paragraph (l) of Section 7.02 is modified to read as follows:

“Section 7.02. *Suspension by the Bank*

... (l) *Ineligibility.* The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of: (i) a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association; and/or (ii) a declaration by another financier that the Borrower (other than the Member Country) or the Project Implementing Entity is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (b) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”

## **Section III. Modifications to the Anti-Corruption Guidelines**

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

32. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and

government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”