

CONFORMED COPY

LOAN NUMBER 7079 - ME

Loan Agreement

**(Southeast Regional Development
Learning and Innovation Project)**

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

NACIONAL FINANCIERA, S.N.C.

Dated March 21, 2002

LOAN NUMBER 7079 - ME

LOAN AGREEMENT

AGREEMENT, dated March 21 , 2002, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and *NACIONAL FINANCIERA, S.N.C.* (the Borrower).

WHEREAS (A) the United Mexican States (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) the Bank has received a legal opinion dated April 24, 2001, issued by the Legal Department of the Borrower (*Dirección de Normatividad Legal*) informing the Bank that the implementation of the Project will not be negatively affected by the provisions of the Guarantor's *Normatividad Financiera* (as hereinafter defined); and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan provided in Article II of this Agreement (the Loan) 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. (a) The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank, dated September 1, 1999, with the modification set forth in paragraph (b) below (the General Conditions), constitute an integral part of this Agreement.

(b) Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower, the Guarantor and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”

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) “Administrative Manager” means the staff to be appointed within the PCU pursuant to the provisions of Section 3.07 (c) (iii) of this Agreement;

(b) “Authorization” means *Oficio de Autorización de Endeudamiento* issued by the Guarantor on June 26, 2001, authorizing the Borrower to request the Loan from the Bank for the purposes of the Project;

(c) “Commercial Subproject” means any of the projects referred to in Part B.2 of the Project;

(d) “Credit Manual” means the Borrower’s manual, setting forth the eligibility criteria and the terms and conditions for the provision of financing to, and supervision of the performance of the Eligible Microfinance Institutions (as hereinafter defined), dated November 15, 2000, as amended by the corresponding resolutions (*Circulares*) issued by the Borrower’s Operations Committee (*Comité de Operaciones*) on January 31, 2001 and February 7, 2001;

(e) “Eligible Categories” means categories (1), (2), (3), (4), (5) and (6) set forth in paragraph 1 of the table in Part A of Schedule 1 to this Agreement;

(f) “Eligible Expenditures” means the expenditures for goods and consultants’ services referred to in Section 2.02 (a) of this Agreement;

(g) “Eligible Infocenter” means any of the Infocenters (as hereinafter defined) which meets the eligibility criteria set forth in the Operational Manual (as hereinafter defined) to participate under Part B of the Project;

(h) “Eligible Microbusiness” means a Microbusiness (as hereinafter defined) which meets the eligibility criteria set forth in the Operational Manual (as hereinafter defined) to participate under Parts A.1 (b) and B.2 of the Project;

(i) “Eligible Microfinance Institution” means any of the Microfinance Institutions (as hereinafter defined) which meets the eligibility criteria set forth in the Operational Manual to participate under Part A of the Project;

(j) “Grant” means any of the grants made or proposed to be made by the Borrower, out of the proceeds of the Loan, to an Eligible Infocenter for the financing of a Start-up Subproject (as hereinafter defined);

(k) “Grant Agreement” means *Convenio de Donación*, any of the agreements referred to in Section 3.01 (a) (iii) of this Agreement;

(l) “Implementation Letter” means the letter of even date herewith, from the Borrower to the Bank containing: (i) indicators to be used in monitoring and evaluating the implementation of the Project; (ii) due diligence requirements to be used in the selection of Participating States (as hereinafter defined); and (iii) the list of activities referred to in Part D.2 (f) of Schedule 4 to this Agreement;

(m) “Infocenter” means any of the private commercial companies or non-profit entities established and operating in the territory of any of the Participating States (as hereinafter defined) for the provision of information and communications technology-based development services under Part B of the Project;

(n) “Institutional Development Subproject” means any of the projects referred to in Part A.1 (a) of the Project;

(o) “Intermediary Loan” or the plural “Intermediary Loans” means the Intermediary Loans-Type A (as hereinafter defined) and Intermediary Loans-Type B (as hereinafter defined);

(p) “Intermediary Loan Agreement” or the plural “Intermediary Loan Agreements” means the Intermediary Loan-Type A Agreements (as hereinafter defined) and Intermediary Loan-Type B Agreements (as hereinafter defined);

(q) “Intermediary Loan-Type A” means any of the loans made or to be made by the Borrower, out of the proceeds of the Loan, to an Eligible Microfinance Institution for the financing of an Institutional Development Subproject and the provision of Subloans (as hereinafter defined);

(r) “Intermediary Loan-Type A Agreement” means *Contrato de Descuento Crediticio*, any of the agreements entered into between the Borrower and an Eligible Microfinance Institution whereby an Intermediary Loan-Type A is made;

(s) “Intermediary Loan-Type B” means any of the loans made or to be made by the Borrower, out of the proceeds of the Loan, to an Eligible Infocenter for the financing of a Commercial Subproject;

(t) “Intermediary Loan-Type B Agreement” means *Contrato de Crédito de Primer Piso*, any of the agreements entered into between the Borrower and an Eligible Infocenter whereby an Intermediary Loan-Type B is made;

(u) “Investment Subproject” means any of the projects referred to in Part A.1 (b) of the Project;

(v) “Microbusiness” means: (i) for the purposes of Part A.1 (b) of the Project, an enterprise comprising up to 30 employees established and operating in a Participating State (as hereinafter defined); and (ii) for the purposes of Part B of the Project, an enterprise comprising up to 100 employees established and operating in a Participating State (as hereinafter defined);

(w) “Microfinance Institution” means *Entidad de Fomento*, a non-bank financial institution established and operating in a Participating State (as hereinafter defined) pursuant to the provisions of the Guarantor’s Law (*Ley General de Organizaciones y Actividades Auxiliares de Crédito*) published in the Guarantor’s Official Gazette (*Diario Oficial de la Federación*) on April 30, 1996, as amended by the Guarantor’s Law published in the Guarantor’s Official Gazette (*Diario Oficial de la Federación*) on June 1, 2001;

(x) “Microfinance Operating Manual” means *Reglas de Operación*, the manual referred to in Section 3.08 (a) of this Agreement;

(y) “Monitoring Indicators” means the indicators set forth in the Implementation Letter of even date with this Agreement between the Borrower and the Bank;

(z) “*Normatividad Financiera*” means the Guarantor’s laws and regulations pertaining to the financial and banking sectors, in general, and to the Microfinance Institutions, in particular, including, *inter alia*: *Ley de Instituciones de Crédito*, *Ley General de Títulos y Operaciones de Crédito*, *Ley General de Organizaciones y Actividades Auxiliares del Crédito*, *Ley Orgánica del Banco de Ahorro Nacional y Servicios Financieros* amended or enacted, as applicable, by the Guarantor’s legislature

on June 1, 2001, and all other related regulations issued by the Guarantor's banking supervisory and regulatory agency (*Comisión Nacional Bancaria y de Valores*);

(aa) "Operational Manual" means the manual referred to in Section 3.03 (b) of this Agreement;

(bb) "Organic Law" means *Ley Orgánica de Nacional Financiera*, the Guarantor's Law establishing the Borrower as a development bank and providing the basic legal framework for its legal responsibilities as Project executing agency, published in the Guarantor's Official Gazette (*Diario Oficial de la Federación*) on May 24, 1996, as amended to the date of this Agreement;

(cc) "Participating State" means any of the Guarantor's States in the Southeast region of the Guarantor's territory which meets the eligibility criteria set forth in the Operational Manual to participate in the Project, and has satisfactorily complied with the due diligence requirements detailed in the Implementation Letter;

(dd) "PCU" means the Project coordination unit referred to in Section 3.07 of this Agreement;

(ee) "*peso*" or in plural "*pesos*" means the Guarantor's currency;

(ff) "Procurement Specialist" means the staff to be appointed within the PCU pursuant to the provisions of Section 3.07 (c) (ii) of this Agreement;

(gg) "Project Accountant" means the staff to be appointed within the PCU pursuant to the provisions of Section 3.07 (c) (i) of this Agreement;

(hh) "Project Coordinator" means the staff to be appointed within the PCU pursuant to the provisions of Section 3.07 (b) of this Agreement;

(ii) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(jj) "Regional Staff" means the staff to be appointed within the PCU pursuant to the provisions of Section 3.07 (c) (iv) of this Agreement;

(kk) "Resolution" means *Acuerdo*, the resolution to be issued by the Borrower's Board (*Consejo Directivo*), whereby the Borrower undertakes to obtain the Loan from the Bank;

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

(mm) “Start-up Subproject” means any of the projects referred to in Part B.1 of the Project;

(nn) “State” means a political subdivision (*estado*) of the Guarantor;

(oo) “Subloan” means any of the loans made or proposed to be made by an Eligible Microfinance Institution, out of the proceeds of an Intermediary Loan-Type A, to an Eligible Microbusiness for the financing of an Investment Subproject;

(pp) “Subloan Agreement” means any of the agreements entered into between an Eligible Microfinance Institution and an Eligible Microbusiness pursuant to the terms and conditions set forth in the Operational Manual, including the provisions referred to in Part D of Schedule 4 to this Agreement; and

(qq) “Subprojects” means, collectively: (i) the Institutional Development Subprojects; (ii) the Investment Subprojects; (iii) the Start-up Subprojects; and (iv) the Commercial Subprojects.

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 five million Dollars (\$5,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of: (a) the reasonable cost of goods and consultants’ services required for the Project and to be financed out of the proceeds of the Loan; (b) the front-end fee referred to in Section 2.04 of this Agreement; and (c) any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

Section 2.03. The Closing Date shall be December 31, 2005 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one per cent (1%) of the amount of the Loan. 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 said 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 percent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 (b) of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one percent (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, at a rate for each Interest Period equal to 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 June 15 and December 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in full on June 15, 2011.

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) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower and the Bank hereby agree that unless otherwise notified by the Borrower in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(d) 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.

ARTICLE III

Transfer of Loan Proceeds; Other Covenants

Section 3.01. (a) The Borrower shall issue the Resolution and shall enter into, and comply with, and enforce the terms of written agreements satisfactory to the Bank, providing, *inter alia*, for the transfer, out of the proceeds of the Loan:

- (i) to the Eligible Microfinance Institutions, of an aggregate amount equivalent to the amounts allocated, from time to time, to Categories (1) (a) and (1) (b) in the table in paragraph 1 of Part A of Schedule 1 to this Agreement, in *pesos* or in Dollars, on a loan basis (Intermediary Loan-Type A), for the purposes of carrying out Part A of the Project;
- (ii) to the Eligible Infocenters, of an aggregate amount equivalent to the amount allocated, from time to time, to Category (3) in the

table in paragraph 1 of Part A of Schedule 1 to this Agreement, in *pesos*, on a loan basis (Intermediary Loan-Type B), for the purposes of carrying out Part B.2 of the Project; and

- (iii) to the Eligible Infocenters, of an aggregate amount equivalent to the amounts allocated, from time to time, to Categories (2) (a) and (2) (b) in the table in paragraph 1 of Part A of Schedule 1 to this Agreement, in *pesos* or in Dollars, on a grant basis (Grant), for the purposes of carrying out Part B.1 of the Project.

(b) Except as the Bank may otherwise agree, the Borrower shall not amend, assign, waive, terminate or fail to enforce any provision of the agreements referred to in paragraph (a) of this Section. The Borrower shall exercise its rights and carry out its obligations under such agreements in such a manner as to protect the interests of the Borrower, the Guarantor, and the Bank, and to accomplish the purposes of the Loan. The Borrower shall promptly inform the Bank and the Guarantor of any condition which interferes or threatens to interfere with the performance of the Borrower of its obligations under such agreements.

Section 3.02. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall, through the PCU:

(a) carry out the Project, or cause the Eligible Microfinance Institutions and the Eligible Infocenters to carry out their respective activities under the Project, including the Subprojects, all with due diligence and efficiency and in conformity with appropriate administrative, financial, banking, microfinance, information communications technology, participatory, environmental, and social standards and practices, and with due regard to the provisions of the *Normatividad Financiera*; and

(b) provide, or cause the Participating States, the Eligible Microfinance Institutions, the Eligible Infocenters and the Eligible Microbusinesses to provide, promptly as needed, the funds, facilities, services, counterpart staff and other resources required for the Project.

Section 3.03. Without limitation upon the provisions of paragraph (a) of Section 3.02 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out, and shall cause the Eligible Microfinance Institutions and the Eligible Infocenters to carry out their respective activities under the Project, including the Subprojects, in accordance with the terms of:

- (a) the Implementation Letter; and

(b) a manual, satisfactory to the Bank (the Operational Manual), containing detailed procedures for the carrying out of the Project, including, *inter alia*: (i) criteria to determine the eligibility of the States, Microfinance Institutions, Microbusinesses and Infocenters for the purposes of receiving financing under the Project; (ii) terms, conditions and standard contractual documentation for the provision of Intermediary Loans, Subloans and Grants financed under the Project, including the provisions set forth in Schedule 4 to this Agreement; (iii) terms, conditions and procedures for the review, assessment and approval of Subprojects financed under the Project; (iv) detailed terms and procedures for the establishment and implementation of accounting, auditing and financial management systems for the Project; (v) procedures and requirements for the procurement of goods and consultants' services financed under the Project, including the Subprojects; and (vi) terms of reference and procedures for the design and implementation of the evaluation and consultation activities referred to in Part C.2 (b) of the Project. Except as the Bank shall otherwise agree, the Borrower shall not amend, waive or fail to enforce the Operational Manual, or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.

Section 3.04. (a) Without limitation upon the provisions of Section 3.01 (a) (i) of this Agreement, the Borrower, through the PCU, shall: (i) for the purposes of Part A.1 (a) of the Project, enter into an agreement with each Eligible Microfinance Institution (the Intermediary Loan-Type A Agreement) substantially in accordance with the standard contractual provisions set forth in the Operational Manual, including the provisions referred to in Part A of Schedule 4 to this Agreement; and (ii) for the purposes of Part A.1 (b) of the Project, cause the Eligible Microfinance Institution to enter into an agreement with each Eligible Microbusiness (the Subloan Agreement) substantially in accordance with the standard contractual provisions set forth in the Operational Manual, including the provisions referred to in Part D.2 of Schedule 4 to this Agreement.

(b) The Borrower, through the PCU, shall: (i) exercise its rights and comply with its obligations under each Intermediary Loan-Type A Agreement in such a manner as to protect the interests of the Borrower, the Guarantor and the Bank, and to accomplish the purposes of the Project, including the Institutional Development Subprojects, and except as the Bank shall otherwise agree, the Borrower shall not amend, waive or fail to enforce any of such Intermediary Loan-Type A Agreement or any provision thereof; and (ii) cause each Eligible Microfinance Institution to exercise its rights and comply with its obligations under each Subloan Agreement in such a manner as to protect the interests of the Borrower, the Guarantor and the Bank, and to accomplish the purposes of the Project, including the Investment Subprojects, and except as the Bank shall otherwise agree, the Borrower shall cause each Eligible Microfinance Institution not to amend, waive or fail to enforce any of such Subloan Agreement or any provision thereof.

(c) Without limitation upon the provisions of Section 3.01 (a) (ii) and (a) (iii) of this Agreement, the Borrower, through the PCU, shall: (i) for the purposes of Part

B.1 of the Project, enter into an agreement with each Eligible Infocenter (the Grant Agreement) substantially in accordance with the standard contractual provisions set forth in the Operational Manual, including the provisions referred to in Part C of Schedule 4 to this Agreement; and (ii) for the purposes of Part B.2 of the Project, enter into an agreement with each Eligible Infocenter (the Intermediary Loan-Type B Agreement) substantially in accordance with the standard contractual provisions set forth in the Operational Manual, including the provisions referred to in Part B of Schedule 4 to this Agreement.

(d) The Borrower, through the PCU, shall exercise its rights and comply with its obligations under each Grant Agreement and each Intermediary Loan-Type B Agreement, in such a manner as to protect the interests of the Borrower, the Guarantor and the Bank, and to accomplish the purposes of the Project, including the Start-up Subprojects and the Commercial Subprojects, and except as the Bank shall otherwise agree, the Borrower shall not amend, waive or fail to enforce any of such agreements or any provision thereof.

Section 3.05. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project, including the Subprojects, and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.06. The Borrower, through the PCU, shall ensure, throughout the execution of the Project, that the Eligible Microfinance Institutions and the Eligible Infocenters shall carry out their respective activities under the Project, including the Subprojects, as provided in the Operational Manual.

Section 3.07. (a) The Borrower shall establish, and thereafter maintain, at all times, until the completion of the Project, a Project coordination unit with functions and responsibilities satisfactory to the Bank, including, *inter alia*, the following functions and responsibilities: (i) monitoring the implementation of the Project and ensuring effective coordination among the staff and institutions responsible for the implementation of the Project, including the Subprojects; (ii) preparing and submitting to the Bank the reports referred to in Section 3.09 (b) of this Agreement; (iii) carrying out of the procurement of goods and consultants' services required for the Project pursuant to the provisions of Schedule 3 to this Agreement; (iv) overseeing the general administration of the Project, with respect to Loan proceeds withdrawal, financial management, accounting and auditing; (v) reviewing, jointly with the Guarantor and the Bank, the progress achieved by the Borrower in the implementation of the Project on the basis of the annual reports referred to in Section 3.09 (b) of this Agreement, and carrying out the actions required for the subsequent implementation of the Project; (vi) monitoring progress achieved by the Eligible Microfinance Institutions and the Eligible Infocenters in the implementation of their respective activities under the Project, including the Subprojects; and (vii)

identifying any possible obstacle or difficulty affecting or threatening to affect such implementation.

(b) The Borrower shall ensure that the PCU is, at all times, during the execution of the Project, headed by a Project coordinator (the Project Coordinator), with qualifications, experience, functions and responsibilities satisfactory to the Bank.

(c) The Project Coordinator shall be assisted by technical and administrative staff in adequate numbers and with qualifications and experience satisfactory to the Bank, including, *inter alia*: (i) one accountant with technical expertise in financial management matters (the Project Accountant); (ii) a specialist in procurement procedures, guidelines and contracts (the Procurement Specialist); (iii) an officer responsible for administrative and operational matters (the Administrative Manager); and (iv) regional staff (the Regional Staff) assigned to the Borrower's office in the State of Yucatán (Mérida), including, *inter alia*, a technical specialist for Part A of the Project and a technical specialist for Part B of the Project. The Regional Staff shall be responsible, *inter alia*, for: (A) ensuring that each Eligible Microfinance Institution and each Eligible Infocenter prepares and submits, in a timely fashion, annual reports and business plans; (B) supervising and monitoring the implementation of the Subprojects approved for financing under the Project; (C) assisting with the preparation of reports and documentation related to financial management requirements under the Project; and (D) compiling and disseminating the lessons learned throughout Project implementation.

(d) Without limitation or restriction upon other provisions of this Agreement, the Borrower shall provide, promptly as needed, the funds, facilities, services, staff and other resources required for the discharge of the functions of the PCU.

Section 3.08. For the purposes of carrying out Part A.1 (b) of the Project, the Borrower, through the PCU, shall cause each Eligible Microfinance Institution to:

(a) issue an operating manual (the Microfinance Operating Manual) detailing all relevant information required for the provision of financial services to the Eligible Microbusinesses. Such manual shall include, *inter alia*: (i) procedures and standard documentation for baseline and other relevant data collection processes; (ii) criteria to determine the eligibility of a Microbusiness for the purposes of receiving financing under the Project; (iii) terms, conditions and model documentation for the provision of Subloans (application, review, processing and approval of proposed Subprojects, and supervision and enforcement of approved Subloans); and (iv) a description of the Subloan tracking, accounting, auditing and financial reporting systems;

(b) by not later than October 31, in each year of Project implementation, prepare and furnish to the Borrower, through the PCU, an annual action plan; and

(c) by not later than April 30, in each year of Project implementation, issue and furnish to the Borrower, through the PCU, an audited annual financial statement, for each Eligible Microfinance Institution.

Section 3.09. Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower, through PCU, shall during the execution of the Project:

(a) maintain, or cause to be maintained, policies and procedures adequate to enable the PCU to monitor and evaluate on an ongoing basis (in accordance with the Monitoring Indicators) the carrying out of the Project, including the Subprojects, and the achievement of the objectives thereof;

(b) prepare and furnish to the Bank, by not later than April 30, in each year of Project implementation, reports, in a format satisfactory to the Bank, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, which reports shall include, *inter alia*: (i) a detailed description of the Project activities completed during the twelve months preceding the date of the report; (ii) an annual plan, including a budget and a financial plan (detailing all contributions from public and private sources) for the activities proposed for implementation during the next calendar year; (iii) an annual plan and implementation timetable for the carrying out of the training programs financed under the Project; and (iv) a progress report, including lessons learned during Project implementation and the results of the evaluation and consultation activities referred to in Part C.2 (b) of the Project;

(c) by not later than June 30, in each year of Project implementation, beginning on June 30, 2002, carry out, jointly with the Guarantor and the Bank a review of the progress achieved in the carrying out of the Project and the attainment of the objectives thereof during the period preceding such date, on the basis of the reports referred to in paragraph (b) of this Section, which review shall cover, *inter alia*: (i) the number of Subprojects financed under the Project during the period preceding the date of said report; (ii) any necessary adjustments to the activities financed under the Project, including the Subprojects, to be considered by the Borrower, the Guarantor and the Bank, in light of Project implementation experience up to the time of the review; (iii) an assessment of the performance of the Eligible Microfinance Institutions and the Eligible Infocenters regarding their respective activities under the Project; and (iv) the measures recommended to ensure the efficient carrying out of the Project; and

(d) take or cause to be taken 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 reviews, and the views on the matter provided by the Guarantor and the Bank.

Section 3.10. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through the PCU, shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before 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 sustainability of the Project; and

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall, through the PCU:

(i) have its records, accounts and financial statements (balance sheets statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with generally accepted auditing standards and procedures consistently applied, by independent auditors and based on terms of reference satisfactory to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of 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 and report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements, and the audit thereof, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower, through the PCU, shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such 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 Project Management Reports or 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 provisions of Section 4.01 of this Agreement, the Borrower, through the PCU, shall carry out a time-bound action plan satisfactory to the Bank for the strengthening of the financial management system referred to in Paragraph (a) of said Section in order to enable the Borrower, not later than July 31, 2002, or such later date as the Bank shall agree, to prepare quarterly Project management reports, satisfactory to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the

proceeds of the Loan during the six-month period following the period covered by said report;

- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower, through the PCU, shall prepare, in accordance with guidelines satisfactory to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

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) any of the Eligible Microfinance Institutions, or any of the Eligible Infocenters, shall have ceased to exist in the same legal form as that prevailing as of the date of its corresponding Intermediary Loan Agreement, so as to materially and adversely affect, in the opinion of the Bank, the ability of such Eligible Microfinance Institution or such Eligible Infocenter to perform any of its respective obligations arising under, or entered into pursuant to, this Agreement, or to achieve the objectives of the Project;

(b) any action shall have been taken for the dissolution, disestablishment or suspension of operations of: (i) any of the Eligible Microfinance Institutions that have entered into an Intermediary Loan-Type A Agreement with the Borrower; or (ii) any of

the Eligible Infocenters that have entered into a Grant Agreement or an Intermediary Loan-Type B Agreement with the Borrower;

(c) the Organic Law, or any provision thereof, shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to materially and adversely affect, in the opinion of the Bank, the ability of the Borrower to carry out the Project; and

(d) the *Normatividad Financiera*, or any provision thereof, shall have been amended, abrogated, repealed, waived or not enforced in such a manner so as to materially and adversely affect, in the opinion of the Bank, the ability of the Borrower to carry out the Project.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following event is specified, namely, that any of the events specified in paragraphs (a) or (b) or (c) or (d) of Section 5.01 of this Agreement shall occur.

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) that the Borrower has issued the Resolution;
- (b) that the PCU has been established, and its Project Coordinator, Administrative Manager, Procurement Specialist and Regional Staff have been appointed pursuant to the provisions of Section 3.07 (c) of this Agreement; and
- (c) that the Operational Manual has been issued by the PCU and is in effect.

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 Resolution has been duly authorized or ratified by the Borrower, and is legally binding upon the Borrower in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The *Director de Financiamientos Internacionales* of the Borrower 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 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

For the Borrower:

Nacional Financiera, S.N.C.
Dirección de Financiamientos Internacionales
Insurgentes Sur 1971
Torre III, piso 8
Col. Guadalupe Inn
01020 México, D.F.
México

Cable address:	Telex:	Facsimile:
NAFIN Mexico City	NAFIME 383-1775765 Mexico City	(52-5) 325-7097

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ David de Ferranti

Regional Vice President
Latin America and the Caribbean

NACIONAL FINANCIERA, S.N.C.

By /s/ Mario Laborín Gómez

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

Part A: General

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

	<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1)	(a) Goods and consultants' services for Investment Subprojects	2,665,000	86%
	(b) Goods, consultants' services and training for Institutional Development Subprojects	270,000	86%
(2)	Start-up Subprojects:		
	(a) Goods	80,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 85% of local expenditures for other items procured locally
	(b) Consultants' services and training	190,000	100%
(3)	Goods and consultants' services for Commercial Subprojects	405,000	86%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(4) Consultants' services (including audits) and training under Part C of the Project	360,000	100%
(5) Goods under Part C of the Project	80,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 85% of local expenditures for other items procured locally
(6) Incremental Operating Costs	450,000	80% until disbursements in this Category have reached and aggregate amount of \$300,000; 60% until disbursements in this Category have reached and aggregate amount of \$400,000; and 25% thereafter
(7) Unallocated	450,000	
(8) Fee	50,000	Amount due under Section 2.04 of this Agreement
(9) Premia for Interest Rate Caps and Interest Rate Collars	<u>0</u>	Amount due under Section 2.09 (d) of this Agreement
TOTAL	<u>5,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “training” includes the costs related to the provision of training, such as domestic and foreign travel, room, board and per diem and other administrative expenses incurred by trainees in connection with their training and capacity building activities, carrying out of workshops and dissemination activities, training facility and equipment rentals, fees of consultants employed as trainers, and as technical resource staff, preparation, production and publication of instructional materials, including audiovisual materials; and

(b) the term “Incremental Operating Costs” means reasonable recurrent expenditures incurred by the Borrower, through the PCU (including its Regional Staff), in the daily implementation, management, coordination, monitoring and evaluation of the Project, such as the costs of consumable supplies, maintenance of facilities and equipment and transportation and per diem for the PCU staff (including its Regional Staff), all which would not have been incurred absent the Project.

3. Notwithstanding the provisions of paragraph 1 of this Schedule, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$500,000, may be made in respect of Categories (1) (a), (1) (b), (2) (a), (2) (b) and (4) set forth in the table in paragraph 1 of Part A of this Schedule on account of payments made for expenditures before that date but after December 15, 2000;

(b) in respect of payments made for expenditures under Categories (1) (a) and (1) (b) in the table in paragraph 1 of Part A of this Schedule, with respect to each Eligible Microfinance Institution, unless the Bank has been furnished with documentary evidence, satisfactory to it, confirming that: (i) an Intermediary Loan-Type A Agreement has been entered into between the Borrower and said Eligible Microfinance Institution in accordance with the provisions of Section 3.04 (a) (i) of this Agreement, and such Agreement is legally binding upon the Borrower and the Eligible Microfinance Institution in accordance with its terms; and (ii) the necessary non-Loan counterpart funds to complete the financing of the respective Subproject have been provided; and

(c) in respect of payments made for expenditures under Category (3) in the table in paragraph 1 of Part A of this Schedule, with respect to each Eligible Infocenter, unless the Bank has been furnished with documentary evidence, satisfactory to it, confirming that: (i) an Intermediary Loan-Type B Agreement has been entered into between the Borrower and said Eligible Infocenter in accordance with the provisions of Section 3.04 (c) (ii) of this Agreement, and such Agreement is legally binding upon the Borrower and said Eligible Infocenter in accordance with its terms; and (ii) the necessary non-Loan counterpart funds to complete the financing of the respective Subproject have been provided.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for the purchase of goods that are not subject to prior review by the Bank pursuant to Section I, Part C.2 of Schedule 3 to this Agreement; (b) Incremental Operating Costs; (c) training; (d) consulting firms' contracts costing less than \$50,000; (e) individual consultants' contracts costing less than \$20,000; and (f) Start-up Subprojects, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

Part B: Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in *Nacional Financiera, S.N.C.*, on terms and conditions satisfactory to the Bank.

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

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower, for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower, for withdrawals on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

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

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

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

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

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

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

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

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

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

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not Made
On the Basis of Project Management Reports**

1. For the purposes of this Annex, the term “Authorized Allocation” means an amount equivalent to \$500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$300,000 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 equal or exceed the equivalent of \$1,000,000.

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

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

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

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Made
On the Basis of Project Management Reports**

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.
2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$500,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower, the Participating States and the private sector operating in such States to learn about: (a) the requirements for the development and implementation of sustainable microfinance methodologies to promote access to financial services to unserved populations; and (b) the use of information communications technology to deliver business development services to Microbusinesses in a cost effective and sustainable manner.

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: Microfinance Services

1. Development and implementation of a learning and innovation pilot program to expand and improve the quality and relevance of the Borrower's portfolio of microfinance services in the Participating States, through the provision of loans to Eligible Microfinance Institutions for the purposes of demonstrating the viability of such institutions and testing appropriate microfinance methodologies, said program to include, *inter alia*, the following activities:

(a) the carrying out of projects for the purposes of strengthening the institutional, financial and administrative capabilities of the Eligible Microfinance Institutions, consisting, *inter alia*, of the provision of technical assistance, the acquisition of equipment, including computer equipment and software, the development of operational handbooks and materials and the provision of training for the staff of the Eligible Microfinance Institutions to improve their understanding of microfinance best practices and methodologies and exchange views with the staff of similar institutions; and

(b) the provision of Subloans to Eligible Microbusinesses for the purposes of implementing small projects aimed at expanding the investment and productive capabilities of the Eligible Microbusinesses, through the acquisition of, *inter alia*, equipment, tools, furniture, fixtures, small machinery and raw materials and the provision of technical assistance.

Part B: Information and Communications Technology-Based Business Development

Services

Development, implementation and evaluation of a pilot program that will promote the establishment and operation of public-private partnerships in the Participating States for the purposes of providing information and communications technology-based business development services to Microbusinesses, said program to consist, *inter alia*, of:

1. the provision of grants to Eligible Infocenters for the purposes of financing small projects aimed at assisting such Infocenters to start-up their operations (including, the development of basic products, the carrying out of market research and promotion and piloting of business development services), through, *inter alia*, the provision of technical assistance, office equipment and furniture, computer equipment and software, telephone and internet-access, and training for the Infocenter staff; and

2. the provision of loans to Eligible Infocenters for the purposes of carrying out projects aimed at developing the commercial viability of the Eligible Infocenters, consisting, *inter alia*, of:

(a) the provision of technical assistance for the management, operation and evaluation of the impact of the Eligible Infocenters (including an assessment of the number of Microbusinesses reached by each Eligible Infocenter), the development and implementation of annual business plans; and the carrying out of simulation models to demonstrate the financial sustainability of the Eligible Infocenters;

(b) the carrying out of training programs for the staff of the Eligible Infocenters responsible for the development and implementation of outreach and public awareness activities;

(c) the development, and carrying out of training programs, including the production of new pedagogical tools, and distance learning and conferencing services to improve the entrepreneurial and business capabilities of the Eligible Microbusinesses, through their understanding of the digital economy (e-commerce, web page design and development and e-commerce applications); and

(d) the provision of commercially-priced access to internet services, productivity workstations, databases and other relevant technology information tools and applications, and the acquisition of computer equipment and software required for the improvement of business management techniques and the carrying out of electronic transactions by Eligible Microbusinesses.

Part C: Institutional Strengthening and Capacity Building

1. Strengthening of the technical and managerial capabilities of the Borrower and the PCU (including the Regional Staff) to carry out their respective Project management, coordination and supervision under the Project, through:

(a) the provision of technical assistance required, *inter alia*, for the monitoring of progress in the implementation of the Project, the carrying out of annual financial audits and the procurement of goods and consultants' services financed under the Project;

(b) the acquisition of office equipment, including computers, software, printers and copy machines, materials and supplies; and

(c) the provision of training for the staff of the PCU, at the central and regional offices of the Borrower, to improve their managerial and coordination techniques.

2. Development and implementation of a monitoring and evaluation system, through the provision of technical assistance and training for:

(a) the design, testing and implementation of a monitoring and evaluation system, including a database to assess the performance of the Eligible Microfinance Institutions and Eligible Infocenters throughout the life of the Project; and

(b) the carrying out of an evaluation of the impacts of the learning and innovation programs detailed in Parts A.1 and B of the Project, taking into account the results of such evaluation and of the consultation with representatives of the Eligible Microfinance Institutions, Eligible Microbusinesses, the private sector and civil society, including, *inter alia*, women and indigenous populations residing in the Participating States, through the provision of technical assistance and training, and the preparation of technical notes and reports.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

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: Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost more than \$50,000 equivalent per contract, 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. National Shopping

Goods estimated to cost \$50,000 equivalent or less per contract, up to an aggregate amount not to exceed \$650,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Commercial Practices

Goods required for Part A.1 of the Project may be procured in accordance with commercial practices acceptable to the Bank pursuant to the provisions of paragraph 3.12 of the Guidelines.

Part C: Review by the Bank of Procurement Procedures

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 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

(a) With respect to the first two contracts for goods, awarded in accordance with the procedures of Part B.1 of this Section I, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts for goods to be procured in accordance with the procedures referred to in Part B.2 of this Section I, the following procedures shall apply:

- (i) prior to the selection of any supplier, the Borrower, through the PCU, shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of the contract, the Borrower, through the PCU, shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) 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: Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services estimated to cost less than \$50,000 equivalent per contract, used as part of the implementation of the Subprojects 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.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines 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.

4. Commercial Practices

Services to assist the Eligible Microfinance Institutions, the Eligible Microbusinesses and the Eligible Infocenters in the carrying out of the Subprojects may be procured in accordance with commercial practices acceptable to the Bank.

Part C: 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 \$50,000 or more, 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 individual consultants estimated to cost the equivalent of \$20,000 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.

SCHEDULE 4

Provisions of the Operational Manual

The Operational Manual shall contain provisions including, *inter alia*, the following:

Part A: Terms and Stipulations of Intermediary Loan-Type A Agreements

The Intermediary Loan-Type A Agreement shall include, *inter alia*, provisions detailing:

- (a) the terms and conditions of the transfer of funds from the Borrower to the Eligible Microfinance Institution;
- (b) the eligibility of the Microfinance Institution, including references to legal and contractual evidence submitted by the Eligible Microfinance Institution to apply for, and receive from the Borrower an Intermediary Loan-Type A;
- (c) the interest rate which shall vary according to the currency of the Intermediary Loan (for *peso*-denominated Intermediary Loan-Type A, the financial intermediary market interest (TIIE) rates or fixed rates, and for Dollar-denominated Intermediary Loan-Type A, the interest rate detailed in the Operation Manual);
- (d) the loan amount, repayment terms, maturity, collateral (*garantías*) and other financial terms applicable to the provision of commercially-priced credit lines provided by the Borrower to Microfinance Institutions;
- (e) the obligation of the Eligible Microfinance Institution to use the proceeds of the Intermediary Loan-Type A solely for the purposes of: (A) the carrying out of an Institutional Development Subproject under Part A.1 (a) of the Project; and/or (B) the onlending of a portion of the funds received from the Borrower to Eligible Microbusiness for the financing of an Investment Subproject;
- (f) the obligation of the Borrower to monitor and supervise the performance, quality of the loan portfolio, management of resources and accounting systems of the Eligible Microfinance Institution, and if applicable, apply the sanctions for non-compliance set forth in the Credit Manual (*Tablero Supervisión*), including the suspension of the Intermediary Loan-Type A and declaration of ineligibility of the corresponding Microfinance Institution, and enforce the provisions of the *Normatividad Financiera*; and

(g) the right of the Borrower to inspect, by itself or jointly with representatives of the Bank, the equipment and installations financed by the Intermediary Loan-Type A, the operation thereof, and any relevant records and documents pertaining to the activities financed by said Intermediary Loan-Type A.

Part B: Terms and Stipulations of the Intermediary Loan-Type B Agreements

The Intermediary Loan-Type B Agreement shall include, *inter alia*, provisions detailing:

(a) the eligibility of the Infocenter, including references to legal and contractual evidence submitted by the Eligible Infocenter to apply for, and receive from the Borrower, a *peso*-denominated Intermediary Loan-Type B;

(b) the loan amount, interest rate, repayment terms, maturity, collateral (*garantías*) and other financial terms applicable to the provision of commercially-priced credit lines provided by the Borrower;

(c) the obligation of the Eligible Infocenter to use the proceeds of the Intermediary Loan-Type B solely for the purposes of the carrying out of a Commercial Subproject;

(d) the obligation of the Borrower to monitor and supervise the level of financial sustainability, management of resources and accounting systems of the Eligible Infocenter, and if applicable, apply the sanctions for non-compliance set forth in the provisions of the Intermediary Loan-Type B Agreement and apply the provisions of the *Normatividad Financiera*; and

(e) the right of the Borrower to inspect, by itself or jointly with representatives of the Bank, the equipment and installations financed by the Intermediary Loan-Type B, the operation thereof, and any relevant records and documents pertaining to the activities financed by said Intermediary Loan-Type B.

Part C: Terms and Stipulations of Grant Agreements

The Grant Agreement shall include, *inter alia*, provisions detailing:

(a) the eligibility of the Infocenter, including references to legal and contractual evidence submitted by the Eligible Infocenter to apply for, and receive from the Borrower, a *peso* or Dollar-denominated Grant (each Grant for an Eligible Infocenter not to exceed an aggregate amount equivalent to \$100,000) taking into account the proposed start-up activities detailed in the business plan submitted by the Eligible Infocenter;

(b) the provision of the necessary non-Loan counterpart funds by the Eligible Infocenter to complete the financing of the respective Start-up Subproject;

(c) the obligation of the Eligible Infocenter to carry out the Start-up Subproject in accordance with the terms of the business plan submitted by the Eligible Infocenters; and

(d) the right of the Borrower to inspect, by itself or jointly with representatives of the Bank, the equipment and installations financed by the Grant, the operation thereof, and any relevant records and documents pertaining to the Grant-financed activities.

Part D: Procedures for and Terms and Conditions of Subloans under Part A.1 (b) of the Project

1. For a Subloan to be eligible for reimbursement out of an Intermediary Loan-Type A, the Subloan must: (a) be made to an Eligible Microbusiness that: (i) is legally domiciled in a Participating State; and (ii) is owned by an entrepreneur with at least six months of experience in his or her area of economic activity; (b) have an amortization period not to exceed forty-eight months for fixed-assets loans (excluding single installment repayment schedules); (c) cause the aggregate amount of all Subloans provided to any Eligible Microbusiness receiving Subloans financed under the Project not to exceed the equivalent of \$8,000; (d) be made solely to finance a legally permissible and productive purpose (without harmful environmental impact) and not to finance mere consumption, refinancing of existing debt or transfers of ownership; consequently, the Subloan cannot be used to finance, for example, the purchase of land, food, securities, or existing real estate; and (e) be documented by an agreement between the Eligible Microfinance Institution and the Eligible Microbusiness (the Subloan Agreement).

2. Such Subloan Agreement shall include, *inter alia*, provisions detailing:

(a) the requirements detailed in subparagraphs (a) through (d) of paragraph 1 above;

(b) the provision of the necessary non-Loan counterpart funds by the Eligible Microbusiness to complete the financing of the respective Investment Subprojects;

(c) the obligation of the Eligible Microbusiness to carry out an Investment Subproject in accordance with the provisions of said Subloan Agreement;

(d) the right of the Microfinance Institution to inspect, by itself or jointly with representatives of the Bank and the Borrower, the goods, sites and plants financed by the Subloan, the operation thereof, and any relevant records and documents pertaining to the Subloan-financed activities;

(e) the prohibition of the financing of the payment of any taxes; and

(f) the prohibition of the financing of the list of excluded activities detailed in the Implementation Letter.

3. The Eligible Microfinance Institution shall be free to negotiate Subloan interest rates and other lending terms and security requirements with the Eligible Microbusiness as allowed by Mexican laws and regulations and by market conditions pursuant to the provisions set forth in the Microfinance Operating Manual.

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