

CONFORMED COPY

LOAN NUMBER 2875 ME

(Highway Maintenance Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

BANCO NACIONAL DE OBRAS Y SERVICIOS
PUBLICOS, S.N.C.

Dated November 4, 1987

LOAN NUMBER 2875 ME

LOAN AGREEMENT

AGREEMENT, dated November 4, 1987 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and BANCO NACIONAL DE OBRAS Y SERVICIOS PUBLICOS, 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; and

WHEREAS the Bank has agreed on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985 (the General Conditions), with the last sentence of Section 3.02 deleted, constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "SCT" means the Secretar-a de Comunicaciones y Transportes (Communications and Transport Secretariat) of the Guarantor;

(c) "DGCOP" means the Direcci#n General de Conservaci#n de Obras P#blicas (Directorate General for Maintenance of Public Works) of SCT;

(d) "Federal Road Investment Program" means the five-year program of investments in roadworks, including maintenance, for the federal road network of the Guarantor, prepared by the Guarantor for fiscal years 1987 through 1991; "Annual Federal Road Investment Plan" means any one of the detailed, annual plans for expenditure which form part of the Federal Road Investment Program, prepared by the Guarantor;

(e) "Federal Road Maintenance Improvement Program" means the five-year program for routine and periodic maintenance of the federal paved road and bridge network of the Guarantor, prepared by the Guarantor for fiscal years 1987 through 1991; "Annual Maintenance Improvement Plan" means any one of the detailed, annual plans which form part of the Federal Road Maintenance Improvement Program, prepared by the Guarantor;

(f) "Annual Project Implementation Schedule" means any one of the annual list of works, training, procurement of goods, equipment, furnishings and services for each Part of the Project, including a timetable for implementation thereof, prepared by the Guarantor, for each fiscal year beginning in 1987 through fiscal year 1991;

(g) "Road User Cost Recovery Scheme" means the statement provided by the Guarantor to the Bank dated August 25, 1987, defining the actions to recover the appropriate levels of rehabilitation and maintenance costs attributable to trucks and other heavy vehicles;

(h) "fiscal year" means the fiscal year of the Guarantor, currently beginning on January 1 of each year; and

(i) "peso" means the currency unit of the Guarantor.

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 the Loan Agreement, an amount in various currencies equivalent to one hundred thirty five million dollars (\$135,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn

from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement, as such schedule may be amended from time to time by agreement between the Bank and the Borrower for expenditures made or, if the Bank shall so agree, to be made, in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars, a Special Account on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1994 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 commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the Amortization Schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Transfer of Loan Proceeds

Section 3.01. The Borrower shall enter into contractual arrangements, satisfactory to the Bank, with the Guarantor providing, inter alia, for: (i) the transfer to the Guarantor of the proceeds of the Loan for purposes of carrying out the Project, and (ii) the transfer by the Guarantor to the Borrower of such funds as the Borrower shall be required to pay to the Bank on account of principal, interest and other charges on the Loan. Except as the Bank shall otherwise agree, the Borrower shall not change or fail to enforce any provision of such contractual arrangements.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required

for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Guarantee Agreement.

Section 3.03. The Bank and the Borrower agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project shall be carried out by the Guarantor pursuant to Section 3.02 of the Guarantee Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain separate records for the Special Account adequate to reflect, in accordance with sound accounting practices, the resources and expenditures in connection with the execution of the Project.

(b) The Borrower shall:

- (i) have such separate records and the Special Account, for each fiscal year audited in accordance with generally accepted auditing standards and procedures, consistently applied, by independent and qualified auditors;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, certified copies of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested;
- (iii) furnish to the Bank each month certified statements of the Special Account; and
- (iv) furnish to the Bank such other information concerning the Special Account and the audit thereof, and said records as the Bank shall from time to time reasonably request.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Borrower and Guarantor shall have entered into the contractual arrangements referred to in Section 3.01 of this Agreement.

Section 5.02. 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 contractual arrangements referred to in Section 3.01 of this Agreement have been duly authorized and are legally binding upon the parties thereto in accordance with their respective terms.

Section 5.03. The date February 2, 1988, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Director General of the Borrower is designated as representative of the Borrower for the purposes of

Section 11.03 of the General Conditions.

Section 6.02. 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:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For the Borrower:

Banco Nacional de Obras y Servicios
Públicos, S.N.C.
Insurgentes Norte 423
Mexico, D.F. 06900
Mexico

Cable address:

BANTECARIO
Mexico City

Telex:

BNDSME
01772619
Mexico City

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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

BANCO NACIONAL DE OBRAS Y SERVICIOS
PUBLICOS, S.N.C.

By /s/ Carlos Sales Gutierrez
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Amount of the Loan Allocated (Expressed in	% of Expenditures
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Category	Dollar Equivalent)	to be Financed
(1) Civil works under Part A.1 of the Project	60,400,000	39%
(2) Civil works under Part A.2 of the Project	9,750,000	39%
(3) Civil works under Part C of the Project	1,900,000	39%
(4) New maintenance equipment and spare parts under Part B.1 of the Project	30,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures
(5) Spare and replacement parts, repair and rehabilitation of equipment under Part B.2 of the Project	5,500,000	100% of foreign expenditures and 65% of local expenditures
(6) Goods, furnishings and equipment under Parts C and D.3 of the Project	350,000	100% of foreign expenditures and 65% of local expenditures

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(7) Training under Part D of the Project, including local and international travel and subsistence	1,400,000	100%
(8) Consultants' services under Part E of the Project	2,500,000	100%
(9) Unallocated	23,200,000	
TOTAL	135,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods, services or training supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods, services or training supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals for expenditures under Categories (1) through (8), in an aggregate amount not exceeding the equivalent of \$13,500,000, may be made on account of payments made for expenditures before that date but after November 15, 1986.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) improve maintenance capabilities and operations with respect to the federal highway network; (ii) enhance the economic efficiency of such operations; and (iii) promote appropriate highway cost allocation methods.

The Project is to be carried out with respect to the federal paved road and bridge network, and consists of the following parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives:

Part A: Periodic Maintenance of Roads and Bridges

1. (a) Resurfacing of approximately 7,000 kilometers of roads with asphaltic concrete; and
(b) Surface treatment (chip sealing) of approximately 9,000 kilometers of roads.
2. Repair and rehabilitation of approximately 400 existing bridges requiring major repairs.

Part B: Road Maintenance Equipment Replacement and Rehabilitation

1. Acquisition and utilization of new road maintenance equipment, including spare parts therefor.
2. Repair and rehabilitation of road maintenance equipment, including the acquisition and utilization of replacement parts.

Part C: Maintenance Workshops Program

Construction, rehabilitation and equipping (machinery, spare parts and tools) of road maintenance workshops.

Part D: Training Program

1. Classroom and on-the-job training to improve the skills of managerial, engineering, technical and field staff involved in road and equipment maintenance operations.
2. Training of SCT staff involved in maintenance operations by means of field visits, and study tours and seminars of highway maintenance procedures and practices.
3. Acquisition and utilization of audio-visual equipment, furnishings, training aids and specialized training equipment.

Part E: Technical Assistance Program

Consultants' services to assist SCT in:

- (a) carrying out comprehensive road and bridge condition surveys, field investigations, and designs for pavement and bridge repair and rehabilitation;
- (b) improving DGCOP's maintenance planning and

programming; and

- (c) updating and strengthening the bridge monitoring inspection and maintenance system.

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The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 15 and September 15 beginning March 15, 1991 through September 15, 2002	5,625,000

- * The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) through (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the Eligible Categories in

accordance with the provisions of Schedule 1 to this Agreement;
and

(c) the term "Initial Deposit" means an amount equivalent to ten million (\$10,000,000) to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 of this Schedule.

2. Payments out of the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule. The Borrower shall make withdrawals from the Special Account for payments of Eligible Expenditures on the basis of the evidence that the Bank shall have reasonably determined, and shall debit the Special Account with the amount in dollars so withdrawn or with the dollar equivalent of the currency other than dollars in which the payment was made, determined on the basis of the rate of exchange between the dollar and such currency in effect: (i) on the date each payment shall have been made, if the payment has taken place within 90 days before the date of the withdrawal in question has been requested; or (ii) on the date each withdrawal shall have been made.

3. The Bank may, at the request of the Borrower, withdraw on behalf of the Borrower from the Loan Account and deposit into the Special Account the Initial Deposit. Thereafter, and on the basis of requests by the Borrower furnished to the Bank at such intervals as the Bank shall specify, the Bank shall further so withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account for Eligible Expenditures, but only to the extent that the amount of any such deposit, together with any amount remaining on deposit in the Special Account as of the date of such request, shall not exceed, in the aggregate, the equivalent of the Initial Deposit. Except as the Bank may otherwise agree, each such deposit after the Initial Deposit shall be withdrawn by the Bank from the Loan Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. Prior to or at the time of each request by the Borrower for a deposit by the Bank into the Special Account after the Initial Deposit, the Borrower shall furnish to the Bank in respect of each payment made by the Borrower out of the Special Account, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for Eligible Expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, when the total unwithdrawn amount of the Loan allocated to the Categories, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall be equal to the equivalent of twice the amount of the Initial Deposit, the Bank shall be entitled, after consultation with the Borrower, to reduce the percentage of disbursements for Eligible Expenditures or take any other action which will ensure the Bank that by the time of disbursements of the total amount of the proceeds of the Loan, all deposits (including the Initial Deposit made by the Bank into the Special Account) were made for Eligible Expenditures.

6. (a) If the Bank shall have determined that any payment out of the Special Account: (i) was made for any expenditure or in any amount not eligible for financing by withdrawal from the Loan Account; or (ii) was not justified by the documentation furnished pursuant to paragraph 4 above, the Bank shall notify the Borrower of such circumstances, and if, after a period of 30 days from the issuance of such notice, an amount equal to the amount of such payment or the portion thereof not so eligible or justified has not been deposited by the Borrower into the Special Account or, if the Bank shall so request, refunded, to the Bank, the Bank may, without in any way restricting or limiting any other rights, power, or remedy of the Bank under the Loan Agreement, refrain

from making further deposits into such Account.

(b) If any amount outstanding in the Special Account will not be required to cover further payments for Eligible Expenditures, the Borrower shall, promptly upon notice from the Bank, and unless otherwise agreed by the Bank, refund to the Bank such amount then outstanding in the Special Account for crediting to the Loan Account and immediate cancellation.

