



LOAN NUMBER 8314-MX

Loan Agreement

**(Third Upper Secondary Education
Development Policy Loan)**

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated February 18, 2014

LOAN AGREEMENT

Agreement dated February 18, 2014, entered into between UNITED MEXICAN STATES ("Borrower"), represented by its Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público* - SHCP) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower's maintenance of an adequate macroeconomic policy framework.

Whereas the Borrower has informed the Bank that the proceeds of the Loan (as set forth in the table in Section II.B of Schedule 1 to this Agreement and for purposes of supporting the Program), shall be used in conformity with the requirements of the Borrower's income, budgetary and public debt laws and the terms of this Agreement.

The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of three hundred million seven hundred fifty one thousand eight hundred seventy nine Dollars with seventy cents (\$300,751,879.70), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan").
- 2.02. As a consequence of the Borrower's maintenance of an adequate macroeconomic policy framework and its satisfactory implementation of the Program, the Borrower may, or may cause NAFIN to, withdraw the proceeds of the Loan in accordance with Section II of Schedule 1 to this Agreement. Unless the Borrower's representative designated in Section 6.01 of this Agreement otherwise informs the Bank, the Borrower's Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the *Director/a de Organismos Financieros Internacionales* of NAFIN, or any person

or persons whom such representative shall jointly or severally designate in writing.

- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.
- 2.05. The Payment Dates are May 1 and November 1 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to : (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the

provisions of Article IV of the General Conditions and of the Conversion Guidelines.

- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section II of Schedule 1 to this Agreement.

- 2.08. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 3 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its results. To this end, and further to Section 5.08 of the General Conditions:

- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in the implementation of the Program;
- (b) prior to each such exchange of views, the Borrower shall cause NAFIN to furnish to the Bank for its review and comment a report on the progress achieved in the implementation of the Program, in such detail as the Bank shall reasonably request; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall, or shall cause NAFIN to, promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

- 3.02. (a) The Borrower, through SHCP, shall enter into a contract (*Contrato de Mandato*) among SHCP, SEP and NAFIN, satisfactory to the Bank, whereby:

- (i) NAFIN agrees to act as financial agent of the Borrower with regard to the Loan, meaning that, *inter alia*, NAFIN agrees to represent the Borrower *vis-à-vis* the Bank for purposes of submitting Loan withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Borrower of Loan proceeds in compliance with the terms of this Agreement; and
 - (ii) the Borrower, through SHCP and SEP, shall cooperate fully with NAFIN to ensure that NAFIN is able to comply with all of NAFIN's obligations referred to in paragraph (a) (i) of this Section.
- (b) The Borrower, through SHCP and SEP, shall exercise its rights and carry out its obligations under the *Contrato de Mandato* in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank may otherwise agree, the Borrower shall not terminate, amend, waive or fail to enforce any provision of the *Contrato de Mandato*. In case of any conflict between the terms of the *Contrato de Mandato* and those of this Agreement, the terms of this Agreement shall prevail.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) that the *Contrato de Mandato* has been executed by the parties thereto; and
 - (b) that the Bank is satisfied with the implementation of the Program and with the adequacy of the Borrower's macroeconomic policy framework.
- 5.02. The Additional Legal Matter consists of the following, namely, that the Borrower (in its legal opinion) and NAFIN (in a separate legal opinion satisfactory to the Bank, issued by NAFIN's counsel acceptable to the Bank), indicate that the *Contrato de Mandato* has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and NAFIN and is legally binding upon the Borrower and NAFIN in accordance with the *Contrato de Mandato*'s terms.

- 5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on June 16, 2015.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. Except as set forth in Section 2.02 of this Agreement, the Borrower's Representative is the *Titular de la Unidad de Crédito Público* of SHCP. The authorized representative to make requests for Conversions or for an IBRD Hedge (as defined in the Hedging Guidelines) on behalf of the Borrower shall be: (a) the *Titular de la Unidad de Crédito Público* of SHCP or any person or persons whom he or she shall designate in writing for this particular purpose; or (b) NAFIN's *Director/a de Organismos Financieros Internacionales*.
- 6.02. Unless the Borrower's representative designated in Section 6.01 above otherwise informs the Bank, the Borrower's Address for the purposes of Section 10.01 of the General Conditions is:

Secretaría de Hacienda y Crédito Público
Unidad de Asuntos Internacionales de Hacienda
Insurgentes Sur 1971
Torre III, tercer piso
Colonia Guadalupe Inn
01020 México, D.F.
Facsimile: 011-52-55-3688-1216

- 6.03. The Bank's Address is:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

The actions already taken by the Borrower, through SEP, under the Program, include the following:

A. **Improving Flexibility of Upper Secondary Education**

1. The Borrower has recognized equivalences of subjects across schools to facilitate the transfer of students between systems, as evidenced by: (i) the Borrower's Decree (which modified the General Education Law) duly published in the Official Gazette on June 10, 2013; (ii) the Borrower's education reform which is set forth in the Borrower's Decree (which modified the General Education Law) duly published in the Official Gazette on September 11, 2013; and (iii) Resolution No. XVIII, dated June 14, 2013 issued by CONAEDU.

B. **Enhancing Quality of Upper Secondary Education**

2. The Borrower has: (i) established INEE's mandate, functions and responsibilities and internal organization; and (ii) granted INEE full legal, technical and financial autonomy and new responsibilities, including those related to the evaluation of Upper Secondary Education, as evidenced by the Borrower's law (*Ley del Instituto Nacional para la Evaluación de la Educación*) duly published in the Official Gazette on September 11, 2013.
3. The Borrower has issued regulations to officially recognize alternative teacher training programs under the National Upper Secondary Education System as evidenced by *Acuerdo No. 15* issued by the *Comité Directivo del Sistema Nacional del Bachillerato Sectorial*, published in COPEEMS' website and dated June 13, 2013.

C. **Reducing Opportunity Cost of Upper Secondary Education**

4. The Borrower, through SEP, has introduced a new modality to award scholarships under SEP scholarship program in order to improve the targeting of students at risk of dropping out, as evidenced by SEP's *Acuerdo No. 690*, published in the Official Gazette on August 19, 2013.

5. The Borrower has made Upper Secondary Education compulsory, as evidenced by the Borrower's Decree (which modified the General Education Law) published in the Official Gazette on June 10, 2013.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may, or may cause NAFIN to, withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Loan Amounts.** The Loan (except for amounts required to pay the Front-end Fee) is allocated in a Single Withdrawal Tranche, from which the Borrower may, or may cause NAFIN to, make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

<u>Allocations</u>	<u>Amount of the Loan Tranche Allocated (expressed in Dollars)</u>
(1) Single Withdrawal Tranche	300,000,000.00
(2) Front-end Fee	751,879.70
(3) Amount due pursuant to Section 2.07(c) of this Agreement	0
TOTAL AMOUNT	300,751,879.70

C. Withdrawal Tranche Release Conditions

No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being implemented by the Borrower; and (b) with the adequacy of the Borrower's macroeconomic policy framework.

D. Deposits of Loan Amounts. Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and

2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

E. Excluded Expenditures The Borrower shall use the proceeds of the Loan in accordance with its laws and shall not use them to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is September 30, 2015.

SCHEDULE 2

The Borrower shall repay the principal amount of the Loan in full on November 1, 2021.

APPENDIX

Section I. Definitions

1. "CONAEDU" means *Consejo Nacional de Autoridades Educativas*, the Borrower's Council of Education Authorities, established to comply with the provisions of article 17 of the General Education Law.
2. "*Contrato de Mandato*" means the contract referred to in Section 3.02 (a) of this Agreement.
3. "COPEEMS" means *Consejo para la Evaluación de la Educación Media Superior, A.C.* the Borrower's National Council for the Evaluation of Upper Secondary Education, an entity established as a civil association pursuant to its Articles of Agreement, dated May 4, 2010 and registered in the Borrower's Notary No. 171.
4. "Excluded Expenditure" means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors

Group	Sub-group	Description of Item
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
5. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated March 12, 2012, with the modifications set forth in Section II of this Appendix.
 6. "General Education Law" means *Ley General de Educación*, the Borrower's law duly published in the Official Gazette on July 13, 1993.
 7. "INEE" means *Instituto Nacional para la Evaluación de la Educación*, the Borrower's National Institute for the Evaluation of Education, a decentralized public entity of the Borrower, created through the Borrower's Decree No. 6-68, duly published in the Official Gazette on March 3, 2003.
 8. "NAFIN" means *Nacional Financiera, S.N.C.*, a Mexican development bank serving as the Borrower's financial agent for purposes of the Loan, or any successor thereto acceptable to the Bank.
 9. "National Upper Secondary Education System" means *Sistema Nacional de Bachillerato*, the Borrower's reformed upper secondary education system,

created by SEP Agreement 442, duly published in the Official Gazette on September 26, 2008.

10. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated October 21, 2013 from the Borrower to the Bank declaring the Borrower’s commitment to the Program.
11. “PROFORDEMS” means *Programa de Formación Docente de Educación Media Superior*, the Borrower’s In-Service Teacher Capacity Program for Upper Secondary Education, established pursuant to *Acuerdo No. 447*, issued by SEP and duly published in the Borrower’s Official Gazette on October 29, 2008.
12. “SEP” means *Secretaría de Educación Pública*, the Borrower’s Ministry of Public Education.
13. “SHCP” means *Secretaría de Hacienda y Crédito Público*, the Borrower’s Ministry of Finance and Public Credit.
14. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
15. “Upper Secondary Education” means *Educación Media Superior*, the level of education provided in the Borrower’s territory after the completion of basic education (comprising of preschool and first to ninth grades) and required for entry into higher education (university or equivalent).

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.

4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

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

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (b) The term “Financial Statements” and its definition are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”