

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.
Washington, D.C. 20433
U.S.A.(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

September 4, 2002

Mario Laborín Gómez
Director General
Nacional Financiera, S.N.C.
Plaza Inn, Insurgentes Sur 1971, Torre III, 8 Floor
Col. Guadalupe Inn
01020 México, D.F.
México

Alonso García Tamés
Director General de Crédito Público
Secretaría de Hacienda y Crédito Público
Palacio Nacional, Patio Central
Tercer piso, oficina 3010, Col. Centro
03100 México, D.F.
México

Claudia María Bazúa Witte
Tesorera de la Federación
Secretaría de Hacienda y Crédito Público
Av. Constituyentes 1001, Edif.. "A" piso 4
Col. Belén de las Flores
Deleg. Álvaro Obregón,
01110, México, D.F.

Re: Loan 3805-ME (Technical Education and Training
Modernization Project) Amendment to the Loan and
Guarantee Agreements and to the Implementation Letter

Dear Sirs:

We refer to the Loan Agreement between International Bank for Reconstruction and Development (the Bank) and Nacional Financiera, S.N.C. (the Borrower), to the Guarantee Agreement between United Mexican States (the Guarantor) and the Bank, and to the Implementation Letter, all dated February 7, 1995, with respect to the above-captioned Project. Following on your request dated December 18, 2001, we have amended and replaced in their entirety Section 1.02; Schedule 1, table (including stating references to cancellations on Loan proceeds dated November 7, 2001 and August 1, 2002, and percentages of expenditure financed under categories 4(c), 5 and 6) and paragraph 2(a); and Schedule 2, Part B.1, Part C, and Part D of the Loan Agreement. Also, Section 3.01 (b) and (c) and Sections 3.05 (a), 3.07, 3.08, 3.09, 3.11, 3.12, 3.13 and 3.16 of the Guarantee Agreement; and finally, Attachment I; Attachment II, paragraphs 1, 3(c) and 3(d) and 4; Attachment III, paragraphs 1(b), 1(c), 2 and 3(a); and Attachment IV, paragraphs 3, 5(c)(ii), 5(d)(i), 7(d) and 7(l) of the Implementation Letter. We are pleased to inform you of our agreement to amend said Loan Agreement, Guarantee Agreement and Implementation Letter as indicated in Attachments A, B, and C to this letter as set forth in the consolidated version, (including the amendments dated February 27, 1998; June 2, 1998; May 24, 1999; October 22, 1999; and March 26, 2001) attached to this Amendment Letter.

Please confirm your agreement to the foregoing amendments by signing and dating the three originals of this letter in the space provided below, and returning one to us. This amendment shall enter into effect as of its date first above written, upon receipt by the Bank of one original of this letter signed by you.

Sincerely yours,

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinh H. Nguyen
Acting Director
Colombia, Mexico and Venezuela Country Department
Latin America and the Caribbean Region

AGREED:

NACIONAL FINANCIERA, S.N.C.

UNITED MEXICAN STATES

By: /s/ Mario Laborín Gómez
Authorized Representative

By: /s/ Alonso García Tamés
Authorized Representative

Date: September 5, 2002

Date: June 10, 2003

By /s/ Claudia María Bazúa Witte

Date: October 29, 2003

Signed by Tesorería de la Federación for the only purpose of Article 54 of the Ley del Servicio de Tesorería de la Federación, regarding the Guarantor's obligations set forth in Article II, Section 2.01 of the Guarantee Agreement.

ATTACHMENT A

LOAN AGREEMENT

AGREEMENT, dated February 7, 1995 (as amended through August 28, 2002), between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NACIONAL FINANCIERA, S.N.C. (the Borrower).

WHEREAS: (A) 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, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "CEA" mean an individual or public sector or private sector institution or enterprise validly accredited by an OC (as hereinafter defined) to operate as an Accredited Testing Center (Centro de Evaluación Acreditado) and thus test the competency level attainment of individuals pursuant to Part A.2 of the Project;

(b) “CONALEP” means the Guarantor’s National Professional Technical Education College (Colegio Nacional de Educación Profesional Técnica);

(c) “CGUT” means SEP’s (as hereinafter defined) General Coordinating Entity for Technological Universities (Coordinación General de Universidades Tecnológicas);

(d) “DGB” means SEP’s (as hereinafter defined) General Directorate of High School (Dirección General de Bachillerato);

(e) “DGCFT” means SEP’s (as hereinafter defined) General Directorate of Job Formation Centers (Dirección General de Centros de Formación para el Trabajo);

(f) “DGE CyT” means SEP’s (as hereinafter defined) General Directorate of Education, Science and Marine Technology (Dirección General de Ciencia y Tecnología del Mar);

(g) “DGETA” means SEP’s (as hereinafter defined) General Directorate of Agriculture and Livestock Technological Education (Dirección General de Educación Tecnológica Agropecuaria);

(h) “DGETI” means SEP’s (as hereinafter defined) General Directorate of Industrial Technological Education (Dirección General de Educación Tecnológica Industrial);

(i) “ECOSUR” means the Guarantor’s Southern Border College (Colegio de la Frontera Sur);

(j) “Implementation Letter” means the letter of even date herewith from the Guarantor to the Bank, containing, inter alia, the schedule and targets referred to in Section 3.01 of the Guarantee Agreement;

(k) “INEA” means the Guarantor’s National Institute for Adult Education (Instituto Nacional para la Educación de los Adultos);

(l) “MSMEs” means private enterprises having as few as one and no more than 500 employees;

(m) “OC” means a private sector institution or enterprise validly licensed by the Trust (as hereinafter defined) to operate as a Certification Agency (Organismo de Certificación) and thus accredit CEAs or itself operate as a CEA, and certify the competency level attainment of individuals;

(n) “PAC” means STPS’s (as hereinafter defined) training support program to MSMEs (Programa de Apoyo a la Capacitación);

(o) “PAE” means STPS’s (as hereinafter defined) labor support program (Programa de Apoyo al Empleo);

(p) “PAU” means SEP’s (as hereinafter defined) Project Administration Unit referred to in Section 3.18 (b) of the Guarantee Agreement;

(q) “Project Steering Committee” means the committee (Comité Directivo) referred to in Section 3.18 (a) of the Guarantee Agreement;

(r) “SEP” means the Guarantor’s Public Education Secretariat (Secretaría de Educación Pública);

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

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

(u) “STPS” means the Guarantor’s Labor and Social Welfare Secretariat (Secretaría del Trabajo y Previsión Social);

(v) “Trust” means the Trust in Support of the System of Occupational Standards (Fideicomiso de los Sistemas Normalizado de Competencia Laboral y de Certificación de Competencia Laboral) established pursuant to the Trust Agreement (as hereinafter defined); and;

(w) “Trust Agreement” means the agreement, satisfactory to the Bank, between the Guarantor and the Borrower establishing the Trust.

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, various currencies that shall have an aggregate value equivalent to the amount of two hundred sixty-five million Dollars (\$265,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works 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 may, for the purposes of the Project, open and maintain in Dollars a special deposit account in Banco de Mexico 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, 2003 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 per cent ($3/4$ 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 for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of

one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on January 15 and July 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; Other Covenants

Section 3.01. The Borrower shall enter into, and comply with the terms of, contractual arrangements with the Guarantor, satisfactory to the Bank, providing, inter alia, for: (a) the transfer to the Guarantor of the proceeds of the Loan for use by the Guarantor, CONALEP and the Trust; and (b) 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 may otherwise agree, the Borrower shall not amend or fail to enforce any provision of such contractual arrangements. The Borrower shall exercise its rights under such contractual arrangements in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

Section 3.02. The Bank and the Borrower hereby 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) shall be carried out, or caused to be carried out, by the Guarantor pursuant to Section 3.04 (a) of the Guarantee Agreement.

Section 3.03. The Borrower shall participate in the annual and midterm reviews referred to in Section 3.19 of the Guarantee Agreement.

Section 3.04. The Borrower shall enter into, and comply with the terms of, the Trust Agreement. Except as the Bank may otherwise agree, the Borrower shall not amend or fail to enforce any provision of the Trust Agreement. The Borrower shall exercise its rights under the Trust Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect, in accordance with sound accounting practices, the resources and expenditures in connection with the execution of the Project (such records and separate accounts to include, inter alia, records and separate accounts with respect to the operation of the Trust under Parts A, C.1 and D.1 of the Project).

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, 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 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, 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 said records and accounts as well as 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 statements of expenditure, the Borrower shall provide to the Guarantor any information that may be required by the Guarantor to comply with the Guarantor's obligations under Section 3.05 of the Guarantee Agreement.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) that the Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Trust or for the suspension of the operations of the Trust; and

(b) that the Trust's internal operational rules and procedures referred to in Section 3.06 of the Guarantee Agreement: (i) shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Bank, materially and adversely the ability of the Guarantor to have Parts A and D.1 of the Project carried out by means of the Trust in a manner consistent with the terms of the Guarantee Agreement; or (ii) shall not have been applied in accordance with their terms.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely, that any event specified in Section 5.01 (a) or (b) 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 Trust Agreement shall have been entered into;

(b) that the Project Steering Committee shall have been established with the membership set forth in Section 3.18 (a) of the Guarantee Agreement; and

(c) that the contractual arrangements referred to in Section 3.01 of this Agreement shall have been entered into.

Section 6.02. The following are specified as additional matters, 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:

(a) that, on behalf of each of the Borrower and the Guarantor, the contractual arrangements referred to in Section 3.01 of this Agreement have been duly authorized or ratified, and executed and delivered, by the Borrower and the Guarantor and are legally

binding upon the Borrower and the Guarantor in accordance with the terms of such contractual arrangements; and

(b) that, on behalf of each of the parties to the Trust Agreement, the Trust Agreement has been duly authorized or ratified by, and executed and delivered by each such party and is legally binding upon each such party in accordance with its terms.

Section 6.03. The date May 8, 1995 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 Internacional 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:

INTBAFRAD	248423 (RCA)
Washington, D.C.	82987 (FTCC)
	64145 (WUI) or
	197688 (TRT)

For the Borrower:

Nacional Financiera, S.N.C.
Direccion Internacional
Torre IV, piso 8
Plaza Inn, Insurgentes Sur 1971
01020 Mexico, D.F.
Mexico

Cable address:	Telex:
NAFIN	NAFIME 383-1775765
Mexico City	Mexico City
	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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditure to be Financed
1. Goods and equipment (other than as covered by Categories 2, 4 and 7-9 and 11-13 below)		95%
(a) With regard to Part A of the Project	2,202,462	
(b) With regard to Parts B and D.4 of the Project	52,950,000	
(c) With regard to Part C of the Project	2,200,000	
2. Training materials and printing and reproduction of such materials with regard to Parts A and B of the Project (other than as covered by Categories 4 and 11 below)	6,100,000	50%
3. Consultant's services (other than as covered by Categories 7, 8, 10 and 12 below):		100%
(a) With regard to Parts A and D.1 of the Project	12,966,290	
(b) With regard to Parts B, D.2 and D.4 of the Project	28,983,130	
(c) With regard to Parts C and D.3 of the Project	8,100,000	
4. Incremental operating costs:		
(a) With regard to Part A of the Project	23,050,000	75% until withdrawals under this Category have reached an aggregate

			amount equivalent to \$3,700,000; 50% until withdrawals under this Category have reached an aggregate amount equivalent to \$20,400,000; and 30% thereafter.
	(b) With regard to Parts B and D.4 of the Project	14,300,000	75% until withdrawals under this Category have reached an aggregate amount equivalent to \$8,000,000; 50% until withdrawals under this Category have reached an aggregate amount equivalent to \$13,700,000; and 30% thereafter.
	(c) With regard to Part C of the Project	1,215,000	75% until withdrawals under this Category have reached an aggregate amount equivalent to \$1,100,000; and 50% thereafter.
5.	Stipends	8,368,460	50% until withdrawals under this Category have reached an aggregate amount equivalent to \$6,500,000 and 50% thereafter.
6.	Certification support (other than as covered by Category 13 below)	900,000	90% until withdrawals under this Category have reached an aggregate amount equivalent to \$800,000; and 70% thereafter.
7.	Training and technical assistance with regard to Parts C.2 and C.3 of the Project (other than as covered by Categories 8-10 below)	4,661,350	100% of amounts paid by STPS pursuant to Sections 3.11 and 3.12 of the Guarantee Agreement
8.	Training of MSME workers and technical assistance to MSMEs under Part C.3 of the Project (but	0	60%

	only for MSMEs with 15 or fewer employees each)		
9.	Training of MSME workers under Part C.3 of the Project (but only with respect to MSMEs with 16 or more employees each)	0	60%
10.	Technical assistance to MSMEs under Part C.3 of the Project (but only with respect to MSMEs with 16 or more employees each)	0	60%
11.	Training under Parts B and C.4 (a) of the Project	12,450,000	100%
12.	Publicity activities under Part C.1 of the Project	2,300,000	100%
13.	Training of instructors under Part C.6 (b) of the Project and certification support for such instructors	155,770	100%
14.	Unallocated	0	
15.	Civil works with regard to Part A.1 (b) of the Project	409,487	70%
	Amount cancelled as of June 14, 1995	30,000,000	
	Amount cancelled as of November 7, 2001	39,688,051	
	Amount cancelled as of August 1, 2002	14,000,000	
	TOTAL	265,000,000	
		=====	

2. For the purposes of this Schedule:

(a) The term 'incremental operating costs' means: (i) Trust, PAU, STPS and OC operational, maintenance and travel costs, that would not have been incurred absent the Project, and as part of such operational costs includes salaries only for staff of the PAU

and STPS referred to in Section 3.06 (b) (iii) of the Guarantee Agreement; (ii) CONALEP, CGUT, DGB, DGCFT, DGECyTM, DGETA, DGETI, ECOSUR and INEA operational, maintenance and travel costs, that would not have been incurred absent the Project, but as part of such operational costs does not include any salaries; and (iii) SEP costs, that would not have been incurred absent the Project, for operation of public sector CEAs under Part A.2 (a) of the Project;

(b) the term "stipends" means stipends referred to in Part C.4 (b) of the Project;

(c) the term "certification support" means the grants referred to in Part C.5 of the Project; and

(d) the term "training" may include goods, equipment and materials used exclusively for instructional purposes.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$10,000,000, may be made in respect of Categories (1) through (3) and (4) (b) on account of payments made for expenditures before that date but after June 28, 1994;

(b) payments made for expenditures covered by Categories (1) (a), (3) (a) and (4) (a) until: (i) the Trust (including its technical secretariat referred to in Section 3.06 (b) (iii) of the Guarantee Agreement) shall have been staffed in a manner satisfactory to the Bank; and (ii) the Trust's internal operational rules and procedures (referred to in Section 3.06 (b) (ii) of the Guarantee Agreement), satisfactory to the Bank, shall have come into effect; and

(c) payments made for expenditures covered by Categories (1) (b), (3) (b) and (4) (b) until the PAU shall have been established and staffed as set forth in Section 3.18 (b) of the Guarantee Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures not subject to contract (such as, for example, stipends under Category (5) and certification support under Categories (6) and (13)) and for other expenditures (other than for goods, materials and equipment contracts exceeding \$350,000 equivalent per contract, for contracts with individual consultants exceeding or equal to \$50,000 equivalent per contract and for contracts with consulting firms exceeding or equal to \$100,000 equivalent per contract) under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the quality of the technical education and training system in Mexico so as to meet the critical needs of the country's productive sector in a flexible 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: National System of Competency Standards; Skills Testing and Certification System

1. (a) Development of national competency standards that individuals must meet in order to be certified as competent to perform occupational functions; and (b) institutional strengthening of the Trust by means of which such development shall be carried out, by providing it with financing for its staff (including the staff of the competency committees referred to in Section 3.06 (b) (iv) of the Guarantee Agreement) training and technical assistance needs and for its equipment, materials, copyright license acquisition and incremental operating costs associated with the performance of its role under the Project, as well as for civil works required to refurbish the headquarters of its technical committee referred to in section 3.06 (b) of the Guarantee Agreement.
2. (a) Development and operation, through a network of OCs and CEAs, of a national testing and certification program to measure and certify the attainment by individuals of the skill levels specified by the competency standards developed under Part A.1 (a) of the Project; and (b) provision to such OCs and CEAs of grants for their staff training and technical assistance needs and for their start-up, testing material development and (in the case of OCs only) incremental operating costs associated with the performance of their certification and accreditation roles under the Project.

Part B: Modernization of Training Programs

1. Development and implementation by CONALEP, CGUT, DGB, DGCFT, DGE CyTM, DGETA, DGETI, ECOSUR and INEA networks (on a pilot basis and with redesigned curricula and instructional materials, trained instructors and upgraded equipment) of new competency-based training modules.
2. Development and implementation (subsequent to the pilot phase referred to in Part B.1 of the Project) by public and private training institutions of new curricula, new training materials (which materials shall remain in the public domain) and new modalities to train instructors, all in support of modular courses designed to teach the skills necessary to meet the competency standards developed under Part A.1 (a) of the Project.

Part C: Stimulation of Demand for Competency-based Training and Certification

1. Public promotion, through conferences, media presentations, publicity campaigns and the dissemination of promotion materials, of: (a) the competency standards developed under Part A.1 (a) of the Project; (b) the national testing and certification program developed under Part A.2 of the Project; (c) the new training modules and

courses developed under Part B of the Project; and (d) the PAE training program referred to in Part C.4 of the Project;

2. Provision, on a pilot basis, of grants to Mexican private sector enterprises in priority productive sectors to develop and implement competency-based training programs for their workers and to assess trainee attainment of competencies through such programs.

3. Provision to MSMEs, as part of PAC, of grants: (a) to obtain technical assistance for the preparation of training programs for their workers which are based on the competency standards developed under Part A.1 (a) of the Project; and (b) to implement such training programs.

4. (a) Training, as part of PAE, of trainees (referred to in Section 3.13 (a) of the Guarantee Agreement) through programs which are based on the competency standards developed under Part A.1 (a) of the Project; and (b) provision of stipends to the trainees covered by subparagraph (a) of this paragraph.

5. Provision of grants to cover a portion of the fees charged by OCs and CEAs to individuals for taking the tests (developed under Part A.2 of the Project) required to obtain certification of competencies.

6. (a) provision of equipment (subsequent to the pilot phase referred to in Part B.1 of the Project) to public and private training institutions in support of modular courses designed to teach the skills necessary to meet the competency standards developed under Part A.1 (a) of the Project; and (b) training and certification of instructors (subsequent to the pilot phase referred to in Part B.1 of the Project) of said training institutions in support of modular courses designed to teach the skills necessary to meet the competency standards developed under Part A.1 (a) of the Project.”

Part D: Project Administration and Studies

1. Carrying out of studies to, inter alia, determine the mechanisms for, and evaluate the probabilities of, eventual attainment of financial solvency by the Trust, the OCs and the CEAs.

2. Carrying out of studies to, inter alia: (a) improve SEP data base and information systems to aid in carrying out the study referred to in subparagraph (b) of this paragraph; (b) identify training courses enrollment trends, in terms of change in enrollee population and in the demand for training in specific subject areas, during the course of the Project.

3. Coordination of Project implementation through operation of the PAU and Project Steering Committee.

* * *

The Project is expected to be completed by December 31, 2002.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each January 15 and July 15	
beginning July 15, 2000 through January 15, 2010	13,250,000

* 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

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to 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 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before	1.00

maturity

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (15) and (1) through (13) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$19,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$12,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$24,000,000.

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

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have

requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to expenditures covered by such eligible Categories, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such

payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

ATTACHMENT B

GUARANTEE AGREEMENT

AGREEMENT, dated February 7, 1995 (as amended through August 28, 2002), between UNITED MEXICAN STATES (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and Nacional Financiera, S.N.C. (the Borrower), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project; and

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to two hundred sixty-five million Dollars (\$265,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as provided in this Agreement; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower and to undertake such other obligations as 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, with the modifications set forth in the Loan Agreement (the General Conditions), constitute an integral part of this Agreement.

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

ARTICLE II

Guarantee; Provision of Funds

Section 2.01. Without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of

the Loan, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

Section 2.02. The Guarantor shall provide, or cause to be provided, in a timely manner as needed, the funds, facilities, services and other resources required for the Project.

ARTICLE III

Execution of the Project

Section 3.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall, with due diligence and efficiency and in conformity with appropriate educational, financial, technical and administrative standards and practices, as well as in accordance with the annually adjustable implementation schedule and targets set forth in the Implementation Letter:

(a) cause Parts A and D.1 of the Project to be carried out by means of the Trust (except that SEP shall support the operation of public sector CEAs under Part A.2 (a) of the Project);

(b) cause CONALEP to carry out those portions of Part B.1 of the Project which are not assigned to CGUT, DGB, DGCFT, CGECyTM, DGETA, DGETI, ECOSUR and INEA networks, through SEP;

(c) carry out Part B.2 and D.2 of the Project, and those portions of Part B.1 of the Project assigned to the CGUT, DGB, DGCFT, CGECyTM, DGETA, DGETI, ECOSUR and INEA networks, through SEP;

(d) (i) carry out Part C.1 of the Project through STPS and SEP, and/or cause Part C.1 of the Project to be carried out by means of the Trust; and (ii) carry out Parts C.2 through C.6 of the Project and Part D.3 of the Project through STPS; and

(e) carry out Part D.4 of the Project through the PAU and the Project Steering Committee.

Section 3.02. The Guarantor shall enter into, and comply with the terms of, the contractual arrangements referred to in Section 3.01 of the Loan Agreement. Except as the Bank may otherwise agree, the Guarantor shall not amend or fail to enforce any provision of such contractual arrangements. The Guarantor shall exercise its rights under such contractual arrangements in such a manner as to protect the interests of the Guarantor and the Bank and to accomplish the purposes of the Loan.

Section 3.03. 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 the Schedule to this Agreement.

Section 3.04. (a) The Guarantor shall carry out or cause to be carried out 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) with regard to the Project.

(b) Without limitation of the provisions of Article IX of the General Conditions, the Guarantor shall:

- (i) prepare and furnish to the Bank, or cause to be prepared and furnished to the Bank, not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Guarantor and the Bank, a plan, of such scope and in such detail as the Bank shall reasonably request, for the future operation of the Project;
- (ii) afford the Bank, or cause the Bank to be afforded, a reasonable opportunity to exchange views with the Borrower on said plan; and
- (iii) thereafter, carry out said plan, or cause said plan to be carried out, with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

Section 3.05. (a) The Guarantor shall (through STPS with respect to Parts C.2 through C.6 of the Project, the STPS' execution of Part C.1 of the Project, and through SEP with respect to Parts B, D.2 and D.3 of the Project and SEP's execution of Part C.1 of the Project) maintain records and separate accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in connection with the execution of the Project.

(b) The Guarantor shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section 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, the 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 and accounts as well as 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 statements of expenditure, the Guarantor shall:

- (i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, or cause to be retained, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

(d) For all expenditures with respect to which withdrawals were made from the Special Account, the Guarantor shall provide to the Borrower any information that may be required by the Borrower to comply with the Borrower's obligations under Section 4.01 of the Loan Agreement.

(e) The Guarantor shall cause CONALEP to provide the PAU with any information in CONALEP's possession required to meet the obligations set forth in paragraphs (a) through (d) of this Section.

Section 3.06. (a) For purposes of Part A and D.1 of the Project, the Guarantor shall enter into, and comply with the terms of, the Trust Agreement. The Guarantor shall exercise its rights under the Trust Agreement in such a manner as to protect the interests of the Guarantor and the Bank and to accomplish the purposes of the Loan.

(b) The Trust Agreement shall include terms whereby, inter alia:

- (i) a technical committee, with a membership the majority of which is made up of non-government productive sector representatives, is created for the Trust to set general policies for the Trust which are consistent with the terms of the Trust Agreement;

- (ii) said technical committee shall, no later than eight months after the date of the Trust Agreement, issue internal operational rules and procedures for the Trust which are consistent with the terms of the Trust Agreement;
- (iii) said technical committee shall establish a technical secretariat for the Trust to implement the general policies set by the technical committee and shall name such technical secretariat's Secretary General; and
- (iv) competency committees shall be created, each composed of private sector employers and employees representing a particular industrial sector or occupational cluster, within the structure of the Trust to assist in developing the national competency standards referred to in Part A.1 (a) of the Project.

(c) The internal operational rules and procedures referred to in paragraph (b) (ii) of this Section shall, inter alia, contain terms specifying:

- (i) the requirement that Parts A and D.1 of the Project be carried out by means of the Trust in a manner consistent with the terms of the Guarantee Agreement;
- (ii) the requirement that the studies referred to in Part D.1 of the Project be carried out under terms of reference satisfactory to the Bank;
- (iii) the structure and operational rules and procedures of the technical secretariat referred to in paragraph (b) (iii) of this Section;
- (iv) the structure and operational rules and procedures of the competency committees referred to in paragraph (b) (iv) of this Section, as well as the criteria to be used for selecting the occupational areas for which they shall assist in developing national competency standards;
- (v) the procedures and criteria to be used by the Trust in granting licenses to OCs and by OCs in granting accreditation to CEAs, as well as the requirements (such as maintenance of specified data bases and adherence to specified organizational structures and to terms of reference, including procedures and fee guidelines) for an OC to keep its license and for a CEA to keep its accreditation;
- (vi) the procedures and criteria according to which OCs and CEAs shall receive the support referred to in Part A.2 (b) of the Project; and

- (vii) the requirement that, throughout the course of Project implementation: (A) the Trust participate in the annual and midterm reviews referred to in Section 3.19 (b) and (c) of this Agreement, furnish to the Bank the reports referred to in Section 3.19 (a) of this Agreement and carry out the action plans referred to in Section 3.19 (b) (ii) of this Agreement as they relate to the Trust's participation in the Project; and (B) the Trust maintain registries of the national competency standards approved by the Trust, of the OCs licensed by the Trust, of the accredited CEAs and of the individuals who have taken national competency standard certification tests given by the OCs and CEAs (indicating which have passed and which have failed such tests).

Section 3.07. The Guarantor, through CGUT, DGB, DGCFT, CGECyTM, DGETA, DGETI, ECOSUR and INEA networks (including private training institutions associated with such networks), shall carry out (and the Guarantor shall cause CONALEP to carry out) Part B.1 of the Project based on competency standards other than, and prior to the development of, the national competency standards referred to in Part A.1 (a) of the Project. The Guarantor shall distribute responsibilities for carrying out Part B.1 of the Project between CONALEP and the CGUT, DGB, DGCFT, CGECyTM, DGETA, DGETI, ECOSUR and INEA networks.

Section 3.08. The Guarantor, through SEP, shall issue guidelines, satisfactory to the Bank, for the provision of SEP support to assist training institutions in developing and implementing the new curricula, new training materials and new modalities to train instructors referred to in Part B.2 of the Project. The provision of any SEP support to such institutions under Part B.2 of the Project shall be governed by the terms of such guidelines. Except as the Bank may otherwise agree, the Guarantor shall not amend or fail to enforce any provision of such guidelines.

Section 3.09. The Guarantor, through SEP, shall carry out the studies referred to in Part D.2 of the Project under terms of reference satisfactory to the Bank.

Section 3.10. The Guarantor, through the PAU, shall, throughout the course of Project implementation, maintain registries of all training institutions participating in Part B of the Project and of the modular, competency-based training courses such institutions provide. In addition, the Guarantor shall cause each such institution to maintain a registry of the students enrolled in, and of the students that have graduated from, the modular, competency-based training courses offered by such institution.

Section 3.11. With regard to Part C.2 of the Project, the Guarantor, through STPS, shall make grants available to a private sector enterprise only to reimburse no more than 50% of the costs previously incurred by such enterprise in developing and implementing competency-based training programs and in assessing trainee attainment of competencies through such programs, with the remaining percentage to be covered by the private sector enterprise in question and by the government of the corresponding state. The Guarantor, through STPS, shall select enterprises for participation in Part C.2 of the Project according to criteria referred to in Attachment III (1) of the Implementation Letter.

Section 3.12. With regard to Part C.3 of the Project, the Guarantor, through STPS, shall support MSMEs through a cost-sharing scheme whereby: (a) with regard to the implementation of training under part C.3 (b) of the Project, the Guarantor shall ensure that the percentage of costs borne by STPS shall not exceed 50% throughout the course of Project implementation; (b) with regard to technical assistance under Part C.3 (a) of the Project, the Guarantor shall ensure that the percentage of costs borne by STPS shall not exceed 50% throughout the course of Project implementation; and (c) MSMEs shall receive the share of costs from the Guarantor, not as advances made by the Guarantor, but only as reimbursements made by the Guarantor for training implementation and technical assistance costs already incurred by the MSMEs.

Section 3.13. With regard to Part C.4 of the Project, the Guarantor, through STPS, shall: (a) select trainees according to criteria referred to in Attachment III (2) of the Implementation Letter; (b) pay trainees during their training a stipend valued at one to three minimum salaries, depending on the applicable regional wage (plus a transportation supplement equivalent to no more than 30% of the applicable regional legal minimum wage); and (c) pay the training institutions in question for costs such institutions have incurred in providing the training referred to in Part C.4 (a) of the Project.

Section 3.14. With regard to Part C.5 of the Project, the Guarantor, through STPS (with the assistance of CGUT, DGCFT, DGECyTM, DGETA, DGETI, ECOSUR and INEA) and according to guidelines satisfactory to the Bank which shall include criteria (set forth in Attachment III (3) of the Implementation Letter) for determining which individuals are eligible for certification fee relief, shall reimburse OCs and CEAs: (a) for 100% of the fee not paid by or on behalf of an eligible unemployed test taker or of an instructor referred to in Part C.6 (b) of the Project; and (b) for 90% of the fee (if the test is taken before 2001), 70% of the fee (if the test is taken during 2001) or 50% of the fee (if the test is taken during 2002) in the case of an eligible employed test taker for whom the remainder of the fee has been paid at least in part by the test taker, his employer (including government employer) or any other non-public entity

Section 3.15. (a) The Guarantor, through STPS, shall publicly invite training institutions to present proposals to benefit from the training covered by Part C.6 of the Project. To obtain such benefits, training institutions shall be selected by the Guarantor, through STPS, according to procedures and criteria satisfactory to the Bank.

(b) The Guarantor, through STPS, shall publicly invite training institutions to present proposals to benefit from the equipment covered by Part C.6 of the Project. To obtain such benefits, training institutions shall be selected by the Guarantor, through STPS, according to procedures and criteria satisfactory to the Bank. The Guarantor, through STPS, shall provide such equipment to training institutions which is valued at or below \$200,000 equivalent per selected training institution. The Guarantor shall retain title to such equipment but shall require the training institutions to be responsible for its operation and maintenance. Training institutions receiving equipment under Part C.6 of the Project must also participate in the retraining under such Part of the Project.

(c) The Guarantor, through STPS, shall enter into a renewable one-year term contract, satisfactory to the Bank, with each privately-owned training institution receiving equipment under paragraph (b) of this Section. Such contract and the first one-year renovation thereof shall each require each such training institution to provide training services to individuals or enterprises at a discount which results in savings to the training recipients equal to at least 15% per year of the cost of such equipment. Except as the Bank may otherwise agree, the Guarantor shall not change or fail to enforce any provision of the contracts referred to in this paragraph.

Section 3.16. [deliberately left in blank]

Section 3.17. The Guarantor, through STPS, shall, throughout the course of Project implementation, maintain registries of all the private sector enterprises participating in the development and implementation of training programs under Part C.2 of the Project and of the results achieved as a result of such participation, of all the MSMEs and trainees participating in Part C.3 of the Project and of all trainees benefiting from Part C.4 of the Project.

Section 3.18. (a) The Guarantor shall set overall Project implementation coordination policy through the Project Steering Committee which shall operate throughout the course of Project implementation and shall be composed of: (i) higher-level SEP representatives; (ii) higher-level STPS representatives; (iii) the Trust's Secretary General referred to in Section 3.06 (b) (iii) of this Agreement; (iv) a representative from SHCP; and (v) a representative of the Borrower.

(b) The Guarantor shall coordinate implementation of Parts B and D.2 of the Project through the PAU which shall operate throughout the course of Project implementation according to terms of reference referred to in Attachment IV of the Implementation Letter, as well as according to operational rules and procedures satisfactory to the Bank, and shall be staffed on a full-time basis by a General Coordinator, six other Coordinators (one executive coordinator, one for administration and financial management, one for procurement, one for monitoring, one for evaluation and one for planning) and no more than twenty-one additional technical and six additional support staff. Additionally, the Bank and the Borrower may, from time to time, agree on a different number of staff in an amount, and with functions, experience, responsibilities and qualifications acceptable to the Bank operating under terms of reference satisfactory to the Bank.

Section 3.19. (a) Throughout the course of Project implementation, and without limitation of the provisions of Section 9.07 of the General Conditions, the Guarantor shall, through PAU, furnish to the Bank, by no later than 30 days prior to each annual review referred to in paragraph (b) of this Section (beginning in 1995), an annual progress report, in form satisfactory to the Bank, on implementation of the Project (as well as a proposed budget and plan for Project implementation for the immediately subsequent fiscal year). The Guarantor shall cause the Trust, CONALEP and ECOSUR to provide PAU with all relevant information in their possession for purposes of preparing said reports.

(b) The Guarantor, through SEP, STPS and SHCP, shall participate, and shall cause the Trust, CONALEP and ECOSUR to participate, in annual reviews of Project implementation to be held in conjunction with the Bank and the Borrower during the second half of each month of November during Project implementation, beginning in 1995. Each such review shall, based inter alia on the reports and proposed plans and budgets referred to in paragraph (a) of this Section:

- (i) examine the status of Project implementation; and
- (ii) result in the preparation by the Guarantor, no later than each immediately subsequent January 15, of an annual action plan for the Project, satisfactory to the Bank, to be carried out or caused to be carried out by the Guarantor during the immediately subsequent fiscal year, each such action plan to contain, inter alia, the annual adjustment to implementation schedules and targets referred to in Section 3.01 of this Agreement.

(c) Except as provided in Attachment II of the Implementation Letter, the Guarantor, through STPS, SEP and SHCP, shall participate, and shall cause the Trust and CONALEP to participate, in a midterm review of Project implementation to be held in conjunction with the Bank and the Borrower in September 1998. Such midterm review shall be carried out under terms of reference, satisfactory to the Bank, which shall be presented by the Guarantor to the Bank by no later than November 30, 1997.

ARTICLE IV

Representatives of the Guarantor; Addresses

Section 4.01. The Director General de Crédito Público of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Secretaría de Hacienda y Crédito Público
 Dirección General de Crédito Público
 Palacio Nacional, Patio Central
 Oficina 4037
 06066 México, D.F.

Telex:

1777313-SHOCME

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:

INTBAFRAD 248423 (RCA)
 Washington, D.C. 82987 (FTCC)
 64145 (WUI) or
 197688 (TRT)

SCHEDULE

Procurement and Consultants' Services

Section I. Procurement of Goods, Works, Certain Training Materials and Printing Services

Part A: International Competitive Bidding

1. Except as provided in Part C of this Section, goods, non-copyrighted training materials (which are readily available from numerous international suppliers) and printing services shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II 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 in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete

the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D of this Section, the Bank's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods, training materials and printing services in accordance with Part A of this Section, the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project, shall be used.

2. To the extent practicable, contracts for goods, training materials and printing services shall be grouped in bid packages estimated to cost the equivalent of \$500,000 or more each.

Part B: Preference for Domestic Manufacturers

In the procurement of goods and training materials in accordance with the procedures described in Part A.1 of this Section, goods and training materials manufactured in Mexico may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. (a) Goods (other than training materials covered by paragraphs 2, 4 or 5 of this Part C) and printing services (for non-copyrighted, including promotional, materials) estimated to cost less than the equivalent of \$500,000 per contract or per bid package, up to an aggregate amount equivalent to \$20,000,000 in the case of such goods and \$14,400,000 in the case of such printing services, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank. Such procurement shall take place using standard bidding documents satisfactory to the Bank.

(b) Civil works for Part A. 1 (b) of the Project shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank. Such procurement shall take place using standard bidding documents satisfactory to the Bank.

2. Non-copyrighted training materials (which are available from only a limited number of international suppliers), up to an aggregate amount equivalent to \$10,900,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I

and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof. Such procurement shall take place using the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project.

3. Goods (other than training materials covered by paragraphs 2, 4 or 5 of this Part C) estimated to cost less than the equivalent of \$150,000 per contract or per bid package, up to an aggregate amount equivalent to \$10,600,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three contractors eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

4. Subject to the provisions of paragraph 3.5 of the Guidelines, copyrighted training materials (and the printing thereof), up to an aggregate amount equivalent to \$27,500,000, may be procured under contracts awarded after direct negotiations with the copyright holder (and its publisher when necessary), in accordance with procedures acceptable to the Bank.

5. Notwithstanding the provisions of paragraphs 1 through 4 of this Part, OCs may procure goods, training materials and printing services, up to an aggregate amount not exceeding the equivalent of \$325,000 for each OC and the equivalent of \$1,300,000 overall, under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three contractors eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) The procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply with respect to: (i) each contract covered by Parts A and C.2 of this Section; (ii) each of the first contract (awarded on the basis of competitive bidding, advertised locally) for goods and equipment, each of the first such contract for printing services and each of the first such contract for non-durable training materials entered into by the Guarantor through SEP, by the Guarantor through STPS, by CONALEP, by the Trust and by each OC, CEA and other public or private entity undertaking procurement under the Project; and (iii) each of the first contract (awarded on the basis of comparison of price quotations) for goods and equipment, each of the first such contract for printing services and each of the first such contract for non-durable training materials entered into by the Guarantor through SEP, by the Guarantor through STPS, by CONALEP, by the Trust and by each OC, CEA and other public or private entity undertaking procurement under the Project. Where payments for any such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to the Loan Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Guarantor and/or any other Project-executing entities in carrying out the Project, the Guarantor shall employ and/or cause such entities to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines). For complex, time-based assignments, such consultants shall be employed under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms agreed with the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section:

(i) the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or to contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, this exception to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single source selection of consulting firms; (c) assignments of a critical nature as reasonably determined by the Bank; (d) amendments of contracts for consulting firms estimated to cost \$100,000 equivalent or above or for individual consultants estimated to cost \$50,000 equivalent or above; (e) amendments of contracts for consulting firms raising the contract value to \$100,000 equivalent or above or for individual consultants raising the contract value to \$50,000 equivalent or above; and

(ii) all invitation of consulting firms to present proposals for contracts estimated to cost \$200,000 equivalent or above per contract, shall be advertised in the United Nations' magazine Development Business and the short lists of consulting firms to

present proposals for contracts estimated to cost less than \$200 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

IMPLEMENTATION LETTER

We refer to the Guarantee Agreement of even date herewith entered into by and between the United Mexican States (the Guarantor) and the International Bank for Reconstruction and Development (the Bank).

With reference to the provisions of the Guarantee Agreement, and in particular the Guarantor's obligations under Sections 3.01 and 3.11, 3.13, 3.14 and 3.19 thereof, the Guarantor hereby confirms its understanding with the Bank on the following: (i) that the timetables, targets and indicators referred to in such section 3.01, as well as those to be covered in the annual progress reports referred to in such Section 3.19 (a), are those included in Attachment I to this letter; (ii) that among the topics to be covered in examining the status of Project implementation referred to in Section 3.19 (b)(i) of the Guarantee Agreement shall be those included in Attachment II to this letter; (iii) that the selection criteria referred to in Sections 3.11, 3.13 and 3.14 of the Guarantee Agreement shall be those included in Attachment III to this letter; and (iv) that composition and terms of reference for the Project Steering Committee and Project Administration Unit referred to in Section 3.18 in the Guarantee Agreement shall be those included in Attachment IV to this letter.

ATTACHMENT I
IMPLEMENTATION SCHEDULE

Component	Subcomponent/ Activity	1994	1995	1996	1997	1998	1999	2000	2001	2002
Part A National System of Competency Standards, Skills Testing & Certification	A.1 National System of Competency Standards									
	Establish Trust									
	Establish Trust procedures									
	Establish first set of CNs									
	Develop labor competency standards on a continuous basis									
	Validate and approve first groups of standards on a continuous basis									
	A.2 Skills Testing and Certification System									
	Determine the mechanisms to instrument the Certification of Labor Competency System									
	Accredit OCs on a continuous basis									
	Promote the accreditation of Evaluation Centers (CEAs) an Independent Evaluators, on a continuous basis ^{1/}									
	Grant support to OCs and CEAs on a continuous Basis									
	Promote the evaluation of labor competency on a continuous basis									
	Issue Certificates of Labor Competency on a continuous basis									

PROJECT MONITORING INDICATORS

Part/Indicator:	Unit	1995 1998	1999	2000	2001	2002	Total
Component A - National System of Competency Standards, Skills Testing and Certification							
A.1 National System of Competency Standards							
• Establish Standards Committees (CN)	CN in operation	45	53	69	71	80	Not cumulative
• Produce standards for occupational clusters	Competency standards approved	150	155	141	52	100	598
• Develop pilots	pilots in operation	39	39	40	29	31	Not cumulative
• Develop in depth pilots	No. of in-depth pilots in operation	0	4	13	14	14	45
A.2 Certification of Competency							
• Accredite Evaluation Centers	CEAs Accredited ^{1/}	89	167	433	212	75	976
• Accredite Certification Bodies	OCs Accredited	7	8	11	6	6	38
• Certify competency units	Competency units certified:	364	5,621	47,396	47,787	25,000	126,168

Part/Indicator	Unit	1995 -1998	1999	2000	2001	2002	Total
Enroll students in EBC courses	Students enrolled per year	23,685	107,151	227,693	146,040	140,002	644,551
	a) CGUT	0	87	164	301	327	879
	b) CONALEP	10,739	96,100	189,828	94,175	94,175	485,017
	c) DGB					(*)	
	d) DGCFT (CECATI)	3,424	3,858	11,263	15,225	15,000	48,770
	e) DGCFT (IDEFT)	0	0	250	0	3,000	3,250
	f) DGETA	0	0	4,014	4,530	1,500	10,044
	g) DGETI	9,522	7,106	4,738	12,489	15,000	48,855
	h) DGECyTM	0	0	372	0	500	872
	i) INEA	0	0	17,044	19,320	10,500	46,864
Accreditation of CEAs	Schools Accredited as CEAs	3	22	264	60	63	412
	a) CGUT	0	0	13	1	5	19
	b) CONALEP	3	15	70	41	20	149
	c) DGB					(*)	
	d) DGCFT (CECATI)	0	0	41	0	3	44
	e) DGCFT (IDEFT)	0	7	40	0	0	47
	f) DGETA	0	0	32	18	30	80
	g) DGETI	0	0	43	0	5	48
	g)DGECyMT	0	0	25	0	0	25
Evaluation	Individuals evaluated at schools CEAs ^{4/}	41	4,337	14,058	12,803	17,194	48,433
	a) CGUT	0	0	1,020	4,322	3,333	8,675
	b) CONALEP	41	941	6,353	500	2,997	10,832
	c) DGB					(*)	
	d) DGCFT (CECATI)	0	400	2,478	3,489	3,990	10,357
	e) DGCFT (IDEFT)	0	0	1,495	0	2,636	4,131
	f) DGETA	0	2,075	1,640	1,010	250	4,975
	g) DGETI	0	734	442	2,883	3,488	7,547
	h) DGECyTM	0	187	630	599	500	1,916
Modular Courses Offered in EBC		232	2,454	6,103	7,746	9,480	25,783
	a) CGUT		0	0	0	0	0
	b) CONALEP		1,172	3,444	3,332	3,385	11,333
	c) DGB					(*)	0

Part/Indicator	Unit	1995 -1998	1999	2000	2001	2002	Total
	d) DGCFT (CECATI)		141	1,142	2,474	3,834	7,591
	e) DGCFT (IDEFT)		0	0	0	0	0
	f) DGETA		649	731	872	1,020	3,272
	g) DGETI		448	736	1,008	1,181	3,373
	h) DGECyTM		44	50	60	60	214
Component C – Stimulation of Demand for Competency-Based Training and Certification							
PAE							
• Train beneficiaries in EBCL	Beneficiaries trained ^{5/}	34,190	7,745	20,558	0		62,493
• Provide certification incentives	Certified competency units financed	0	4,120	18,455	0		22,575
• Train instructors	Instructors trained	546	406	263	0		1,215
PAC							
• Develop Pilot Cases	Pilots in operation	20	14	20	0		54
• Support EBCL training of workers	Workers/course trained	14,467	5,685	14,176	8,429		42,757
• Support certification of workers	Certified Competency units supported	0	541	8,180	1,402		10,123
• Train instructors	Instructors trained	NA	172	2,128	0		2,300
Component D – Information Systems, Studies and Project Administration							
D.1 Information Systems							
• CONOCER Integrated Information System(SII)	Year started operating					X	
• Education Supply Information System(SINOE)	Year started operating				X		
• Registry of PAC participants in EBC courses (SISNE)	Year started operating		X				
• Competency-Based National Occupational Catalog (CNO) (SICNO)	Year updates are completed		X	X	X	X	

Part/Indicator	Unit	1995 -1998	1999	2000	2001	2002	Total
D.2 Studies ^{6/}							
• Mid-Term Review	Completion year	1998					
• Occupational Analysis	Completion year		X				
• Evaluation of the beginning phase of operation of the certification system	Completion year			X			
• Changes in education institutions associated with EBC	Completion year	1998					
D.3 Project Administration							
• FODECUM (didactic materials fund)	Projects supported by FODECUM	4	10	15	20	15	64
• Project progress reports:	Reports produced	2	1	1	1	1	6
D.4 Dissemination							
• Total Communication Campaign (CONOCER)	Year implemented		X				

NOTES:

1/ Includes CEAs in schools and enterprises.under components B y C

2/ In the cases of DGETI, GDCFT, DGCyTM and DGETA, starting in 2000, each course designed comprises one complete NTCL with an average of 2.5 UCL, and the same applies to didactic materials.

3/ Includes school directors, administrators, and instructors.

4/ Includes evaluations of regular students and PAE beneficiaries.

5/ Of the total 62,493 PAE beneficiaries trained, 54,356 (87%) were trained in public schools that are part of the project network.

6/ The following studies were cancelled: (a) "Identify the combination of basic skills most likely to contribute to an individual's success in attaining competency certification" (Part D.1 of the Project); (b) "Evaluate differences in labor market performance and employment success between trainees who participated in traditional vocational courses and those who participated in competency-based courses" (Part D.2 of the Project); (c) "Evaluate training institution adaptation from traditional to competency-based training" (Part D.2 of the Project); (d) "Evaluate the effectiveness of competency-based training provided under CIMO" (Part D.3 of the Project); (e) "Evaluate the effectiveness of competency-based training provided under PROBECAT" (Part D.3 of the Project); (f) "Evaluate, on the basis of case studies, the impact of competency-based training on selected private sector enterprises" (Part D.3 of the Project); and (g) "Evaluate the competency-based skills certification process and related certification incentives program" (Part D.3 of the Project).

7/ Originally called "identify and test the skills and competencies generally found across occupational clusters and economic sectors in the Mexican productive sector;" Part D.1 of the Project.

(*) The DGB in integrated in the Project as executor in 2002

ATTACHMENT II

1. The Bank will conduct at least two supervision missions during each calendar year, one in March and a more comprehensive implementation review in November, starting in 1995. The Mid-Term Review will occur in September 1998, coinciding with that year's annual implementation review.
2. The annual Implementation Reviews will be organized by the PAU and will take place in November of each year, starting in 1995. The meetings will be attended by Trust, SEP, and STPS senior staff, the PAU Director, the representatives of each executing agency, NAFIN, SHCP, and Bank staff. The purpose of the annual implementation review meetings would be to evaluate project performance against implementation plans and agreed targets; provide management with feedback on project achievements, and issues and areas needing improvement. Specific project areas to be addressed are described below. The reviews and planning process will provide a tool for on-going refinements in project strategies and plans, consistent with the overall objectives of the project.
3. The main areas to be addressed during the implementation reviews, where applicable, are as follows:
 - a) National System of Competency Standards. The review will examine the progress made in the development of competency standards, including: (i) the functioning of the Trust and its related organizations (i.e., Governing Board, Secretariat, CNs, etc.); (ii) progress made in the training of Trust members and other staff; (iii) the occupational coverage and quality of the standards being developed or proposed to be developed; (iv) result of the studies on basic skills, success factors for certification; (v) progress made in the competency standards database; and (vi) the extent to which the private sector has been involved and is a participant and contributor to the new system, particularly within the Trust and its related organizations.
 - b) Skills Testing and Certification System. The review would focus on: (i) the functioning of OCs and CEAs, the procedures for supervision of their activities; (ii) results of the study on the financial solvency of the Trust and OCs; (iii) the process of solicitation, review, and approval of OC proposals for certification and funding; (iv) sector and geographic coverage of the testing and certification system; (v) progress in the development and integration of the OCs' databases of certified workers, and the accessibility of such information through employment agencies; and (vi) certified workers' efficiency gains in entering the labor market.
 - c) Training Modernization Programs. The review will focus on: (i) results of the pilot training modernization programs and how these experiences have been or will be transferred; (ii) the funding mechanisms for training materials, instructor training and equipment management by SEP; (iii) the

match between newly developed competency standards and training programs; (iv) results of the studies on enrollment trends, trainee age, follow-up evaluation of graduates, and adaptability of public training institutions; (v) encouraging the participation of the private sector; and (v) future prospects for financing and sustainability.

- d) Training and Certification Incentives. The review will examine: (i) the usage of incentives for the separate categories of beneficiaries; (ii) the experience with incentives for institutions to develop modular, competency-based training programs based on funding of equipment and instructor training; and (iii) results of studies on assisted PAC firms and PAE participants and on pilot testing of SNC in Enterprises and of an evaluation of certification activities for the purpose of fine-tuning the incentives program.
 - e) Information Systems and Studies. The review will focus on the timely implementation of information systems and studies, including satisfactory terms of reference, timetables, interim and final reports, and the use of data and research in the improvement of project activities.
 - f) Project Administration. The review will examine: (i) the functioning of the Steering Committee and cooperation between the project's executing bodies; (ii) the effectiveness of training programs for policy makers and program managers; (iii) administrative, procurement, disbursement, and other functions, with special emphasis on locating and resolving bottlenecks; (iv) functioning of the Special Account; (v) progress under the project as measured through agreed implementation indicators and monitoring/evaluation activities; and (vi) sector strategies, action plans, and detailed proposed budgets for the coming year.
4. The Mid-Term Review will take place in September 1998, coinciding with the regular annual implementation review, and will examine the same elements, but under a more comprehensive, sector-wide approach. The Mid-Term Review has been timed to generally coincide with the following events, which mark the end of the first phase of project activities: (a) the completion of a first set of competency standards; (b) conclusion of the pilot training modernization programs; (c) design and preliminary installation of several information systems; and (d) preliminary results of several studies for the various components. The Mid-Term Review will then assess both the demand and the supply for the new standards and certification/training system and make provisions for an adjustment, if so required, of project design, action plans, implementation targets, and supervision strategy. The Mid-Term Review will help prepare for the project's mainstreaming phase, including: (a) further development of competency standards; (b) installation of Ocs and CEAs; (c) nationwide development of CBT programs based on the results of the pilot training modernization program through funding of training materials, equipment, and instructor training; and (e) provision of training and certification incentives to targeted groups on a declining basis.

PART C – STIMULATION OF DEMAND
FOR COMPETENCY-BASED TRAINING AND CERTIFICATION

1.

Pilot Testing and Validation of Competencies (Part C.2). The project would fund pilot testing of development or conversion of training programs. Large enterprises and MSMEs (within the numeric limits as presented in the monitoring indicators) are eligible if they fulfill the following criteria:

 - a) Relevant competency based modules have already been developed for testing;
 - b) The firm wishes to participate and is prepared to finance part of the costs of training and technical assistance involved;
 - c) The firm is prepared to have the experience documented and disseminated and to act as a demonstration center by accepting visits from other employers or training agencies through PAC to observe the experience;
 - d) Priority in the development of competencies will itself reflect the interest expressed by the private sector, with priority given to those industrial activities which: (i) have a larger weight in production, employment or exports; (ii) are experiencing rapid technological change; (iii) need to increase the skill level of their workers; or (iv) are confronted by significant needs to increase productivity; and
 - e) To facilitate the demonstration effect, to the extent possible, enterprises will be chosen so as to increase the geographic dispersion of the activities supported.
2.

Training Incentives – Targeted Workers and the Unemployed (Part C.4). Through PAE, several categories of individuals would be eligible for limited support (cost of training, a stipend not to surpass three minimum salaries and a transport allowance – all of which on average lasting about three months but shall not surpass six months) to undertake competency-based courses. Eligibility of individuals for such support shall be determined using the following criteria:

 - a) Population 16 years or older experiencing open unemployment;
 - b) Population 16 years or older experiencing under-employment;
 - c) Population 16 years or older experiencing temporary suspension of employment.
3.

Certification Incentives (Part C.5). The project would provide incentives for workers to undergo the certification process by financing part of the cost of testing on a declining basis, starting in 1997, under the following conditions:

- a) The individual has completed either a course supported by PAC, PAE or recognized training institution;
- b) Individuals lacking this background are still encouraged to present themselves for certification in which case a simple and rapid diagnostic evaluation will be undertaken to assess the candidate's eligibility for the certification test. The diagnostic test will be in two parts: (i) auto-diagnosis, where the candidate present past training and work experience, and demonstrates the ability to read and write through completing the required form; and (ii) diagnosis through application of a few strategic questions;
- c) All candidates (or their employers, including government employers or other non-public entities) must pay 10% of the cost in advance, except in the case of registered unemployed and instructors under Part C.6 (b) or the Project who would be exempted. In most cases, it would be expected that the employer would pay this cost. Over time the percentage of the cost paid by the beneficiary could be increased, based upon the results of the willingness and ability to pay evaluation undertaken in late 1997; and
- d) For any one module, a candidate can only receive the incentive once. However, a candidate could receive support for up to 8 modules as long as these formed part of a coherent career strategy.

Steering Committee and Project Administration Unit
Terms of Reference

Steering Committee

1. The Steering Committee will be responsible for coordinating the execution of the project, and its functions will include:
 - (a) Coordinating activities among the project's distinct executing agencies;
 - (b) Supervising and ensuring adequate execution of the project as agreed with the Bank;
 - (c) Adjudicating on agreements within the project's overall framework, and when necessary, seeking to defuse controversies and unify norms and criteria among executing agencies;
 - (d) Informing concerned authorities about the project's progress; and
 - (e) Providing technical assistance to the Trust, within its capabilities.
2. The Steering Committee will be composed of:
 - (a) high ranking officials of SEP;
 - (b) high ranking officials of STPS;
 - (c) A representative of SHCP;
 - (d) A representative of NAFIN; and
 - (f) The Secretary General of the Trust.

Project Administration Unit

3. The Project will be implemented in parallel by the Trust, SEP (CONALEP, CGUT, DGB, DGCFT, DGECyTM, DGETA, DGETI, ECOSUR and INEA), and STPS. STPS, which has extensive previous experience with Bank-financed training projects, already has the institutional capacity to integrate project-related activities into its normal functions and would not require additional administrative assistance. For this reason, the PAU to be created under the project would be attached to SEP and facilitate its activities, particularly in regards to administrative and logistical support, particularly for procurement, disbursement, auditing, and other legal/financial matters in a manner consistent with Bank guidelines. The PAU's services would be available to the Trust, if so requested, on a consultative basis. At the project level, the PAU will also help maintain the dialogue between the Trust, SEP, and STPS to share experience and exchange lessons learned.

4. **Staff Composition.** The PAU will be headed by a Director (General Coordinator), who will be responsible for: (a) coordination and supervision of the SEP-managed parts of the project; (b) liaison between the Steering Committee and other institutions for coordination of project activities; (c) regular communication with NAFIN and Bank supervision staff, including preparation of periodic reports and organization of annual and mid-term implementation reviews, together with STPS project staff; (d) participation in the Steering Committee as the Technical Secretary; (e) participation in the Procurement Committee as a member; and (f) participation in the Technical Group of the project as a member.

5. The Director will oversee six Coordinators and an Executive Coordinator whose duties are as follows:

- (a) **Executive Coordinator.** The Executive Coordinator will: (i) assist the Director in supervising the activities of the PAU; (ii) propose agendas for the Steering Committee; (iii) propose the content and supervise the production of the Annual Report, as well as the Mid-Term and Final Reports; (iv) revise and finalize the minutes of Steering Committee meetings; (v) work with the other coordinators in developing and implementing a management information system; (vi) oversee the evaluation studies under component D2; (vii) submit terms of reference and proposals for evaluation studies; (viii) prepare the annual plan for both program and budget for the Executive Secretariat and for Component B; (ix) monitor and provide feedback to the Director regarding the status of project resources; and (x) act on the Director's behalf when needed.
- (b) **Administration and Financial Management.** The Coordinator, along with a Finance Assistant, a Program and Budget Assistant, and a Technician, will be responsible for administrative and financial matters, including, inter alia: (i) coordinating the administration, accounting, and planning of project activities; (ii) consolidating the yearly work review and plan for coming year; (iii) maintaining adequate records for Bank review (prior and ex-post), and sending audit reports to the Bank; (iv) generally assisting the SEP and other institutions in ensuring smooth and timely disbursement of project funds; (v) facilitating the budgeting and securing of counterpart funds; (vi) financial management, including disbursements, record keeping, and auditing; (vii) managing and advising on the use of human and financial resources of the PAU; (viii) contributing to project reports in collaboration with NAFIN, SHCP, STPS, SEP, and CNCCL; and (ix) coordinating the development and maintenance of the Project Implementation Manual in electronic format.
- (c) **Procurement.** The Coordinator, along with a Legal Assistant and a Technician, will assist in the timely fulfillment of procurement activities in accordance with Bank and Government guidelines. More specifically, the Coordinator's duties will include, inter alia: (i) preparation of bidding and invitation packages, ensuring they conform with both the national

procurement laws and Bank requirements, and, in exceptional cases, concur with NAFIN on criteria for evaluation of bids and technical proposals; (ii) coordinate with Material Resources Department of SEP on the bidding processes to be followed by PAU, CGUT, DGB, DGCFT, DGECyTM, DGETA and DGETI; (iii) provide input as needed to SEP's procurement committee; (iv) be a member of the Procurement Technical Committee and provide advice; and (v) supervise and maintain documentation pertaining to the procurement of goods and services.

- (d) Evaluation. The Coordinator, along with an Evaluation Assistant, will be responsible for: (i) coordinating the studies under component D2; (ii) integrating an evaluation committee; (iii) analyzing, preparing terms of reference for, and ensuring the quality of studies proposed by the evaluation committee; (iv) assuring a free flow of information regarding evaluation methodologies between the components and for the Technical Committee, including organizing seminars and workshops; (v) managing the Training Material Fund for the second phase of the project; (vi) providing technical assistance to training institutions for material development; (vii) preparing terms of reference for the development of the Fund's operational manual and selection criteria; and (viii) evaluating the training material packages based on the operational manual.
- (e) Monitoring. The coordinator, along with a Systems Assistant, a technician and a Recording Secretary, will be responsible for: (i) coordinating the development of monitoring information systems, overseeing its operation and managing the flow of information between Component B and the Steering Committee; (ii) contributing to the development of the MIS of the project; (iii) produce the Annual Report, Mid-Term Report, Final Report and the report on future operations of the project; (iv) supervising the production of interim progress reports; (v) coordinating Bank supervision missions; (vi) organizing Steering Committee meetings and producing the minutes; (vii) facilitating the interchange of experiences between the various implementing agencies and proposing recommendations to improve the Project's operation; and (viii) providing technical assistance.
- (f) Planning. The Coordinator, along with a Technical Assistant and an Administrative Assistant, will be responsible, in collaboration with the Project executing agencies, for integrating all pertinent information pertaining to the planning and programming of the Project, including, among others, the following activities: (i) formulating desirable scenarios; (ii) establishing convergent strategies and structures for the future; (iii) establishing methodologies for strategic planning for all Project components; (iv) monitoring the implementation of the desirable scenario; (v) defining the lines of action resulting from the strategic plan for the Project; (vi) designing and carrying out the master plan for the Project; (vii) reporting on the progress of the implementation of the master plan; (viii) reporting on the discrepancies in meeting project targets, indicating

the reasons for such discrepancies; and (ix) proposing necessary corrective measures.

6. Functions. The PAU will help coordinate all operational activities and ensure that project implementation is carried out in accordance with the loan and guarantee agreements signed between the Government and the Bank. It will also respond to the information needs of the Steering Committee, NAFIN, SHCP, the Bank, and other local authorities.

7. More specific functions of the PAU, except as already specified under the duties of the Unit Coordinators, include:

- (a) Coordinating with, and assisting SEP's DGPPP in ensuring consistent and timely flow of funds through its annual investment programs, and monitoring and assisting as required STPS' and the Trust's work program under the project;
- (b) Developing and implementing training programs for project staff;
- (c) Providing technical, financial, and administrative assistance to implementation agencies through the Unit Coordinators and other staff;
- (d) Coordinating the activities of CONALEP, CGUT, DGB, DGCFT, DGECyTM, DGETA, DGETI, ECOSUR and INEA during the pilot phase through regular consultation, sharing of experiences, and a consistent framework for information exchange in order (i) to avoid duplication in the funding of equipment and the provision of training, and (ii) to seek complementarily;
- (e) Assisting staff in all components in the preparation of bidding packages, evaluations, reports, and other documentation needed for the procurement of goods and services and the hiring of consultants, particularly in resolving procurement and disbursement bottlenecks;
- (f) Monitoring and following up on actions taken by implementation agencies in all components; consolidating periodic progress reports for each component and the project as a whole in collaboration with STPS and the Trust counterparts through the use of a monitoring system to be developed and agreed with the Bank;
- (g) Monitoring the delivery and quality of products by consultants in accordance to the terms of their contracts;
- (h) Collecting, integrating, and maintaining audit and implementation reports and other project files from executing agencies and submitting them for review by Mexican authorities and the Bank in accordance with applicable agreed guidelines;

- (i) Assisting in the preparation of annual budgets for each component, in collaboration with Trust and STPS counterparts, to ensure adequate counterpart funds as per the agreed annual work programs;
- (j) Assisting in all necessary arrangements to ensure availability of counterpart funds through NAFIN, including providing in an appropriate and timely manner all information requested by NAFIN to process disbursement applications and replenish the Special Account as per procedures agreed with the Bank;
- (k) Carrying out, together with NAFIN and representatives of executing agencies, annual implementation reviews with the Bank; agreeing on an action plan for project improvement and causing it to be carried out;
- (l) Preparing terms of reference for the Mid-Term Review, together with STPS and the Trust staff, to occur in September 1998, and presenting them to the Bank by June 30, 1998; conducting the Mid-Term Review, together with SEP, STPS, the Trust, NAFIN, SHCP, and the Bank, agreeing on an action plan for project improvement and causing it to be carried out; and
- (m) Preparing the Implementation Completion Report with the executing agencies.