

CONFORMED COPY

LOAN NUMBER 4367-ME

Loan Agreement

(Health System Reform Technical Assistance Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

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

Dated September 14, 1998

LOAN NUMBER 4367-ME

LOAN AGREEMENT

AGREEMENT, dated September 14, 1998, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and BANCO NACIONAL DE OBRAS Y SERVICIOS PUBLICOS, S.N.C. (the Borrower).

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

(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 for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through December 2, 1997 (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 this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Implementation Letter" means the letter of even date herewith, from the Guarantor to the Bank, containing targets to be used in monitoring and evaluating implementation of the Project;

(b) "IMSS" means the Guarantor's Instituto Mexicano del Seguro Social (Mexican Social Security Institute), a public agency with its own separate legal personality, governed by the terms of the Social Security Law (as hereinafter defined);

(c) "Medical Area Units" means any one of the IMSS decentralized health service provision units which acts as a managed care organization for IMSS beneficiaries in a given geographical area;

(d) "Operational Manual" means IMSS' Manual Operativo para el Fondo de Desarrollo Innovativo (Operational Manual for the Innovative Development Fund), dated February 1998;

(e) "PCU" means the coordination unit referred to in Section 3.06 (a) of the Guarantee Agreement;

(f) "Social Security Law" means the Guarantor's Ley del Seguro Social (Social Security Law), published in the Guarantor's Diario Oficial de la Federación (Official Gazette) on December 21, 1995, as amended to the date of this Agreement;

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

(h) "Specialty Hospitals" means IMSS tertiary-level hospitals that provide specialized medical services to IMSS beneficiaries.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to twenty five million Dollars (25,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of 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 México 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 December 31, 2000 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. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.06. Interest and other charges shall be payable in arrears on May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of 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 and with IMSS, satisfactory to the Bank, providing, inter alia, for:

(a) the transfer to the Guarantor of the proceeds of the Loan for use by IMSS; 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 3.03 of the Guarantee Agreement.

Section 3.03. The Borrower shall participate in the reviews referred to in Section 3.05 (c) of the Guarantee Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition, including records and separate accounts for the Project.

Section 4.02. (a) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with generally accepted auditing standards and procedures consistently applied, by independent 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: (A) certified copies of its financial statements for such year as so audited; and (B) 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 and the audit thereof as the Bank shall from time to time reasonably request.

(b) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(a) of this (i) maintain or cause to be maintained, in accordance with paragraph 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 (a) 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.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that the legal framework or parts thereof, governing health insurance in Mexico, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Guarantor to perform any of its obligations under the Guarantee Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the contractual arrangements referred to in Section 3.01 of this Agreement have been entered into;

(b) that the PCU has been established, is staffed with the Executive Coordinator referred to in Section 3.06 (a) of the Guarantee Agreement and is operational; and

(c) that terms of reference, satisfactory to the Bank, have been prepared by IMSS for the provision of all the technical assistance under Parts A and B of the Project, as well as for the design of the evaluation program referred to in Part D.3 of the Project.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the contractual arrangements referred to in Section 3.01 of this Agreement have been duly authorized or ratified by the Borrower, the Guarantor and IMSS, have been duly executed by them, and are legally binding upon the Borrower, the Guarantor and IMSS in accordance with their terms.

Section 6.03. The date December 14, 1998 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 General 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:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI); or
64145 (MCI)

For the Borrower:

Banco Nacional de Obras y
Servicios Públicos, S.N.C.
Tecoyotitla 100
Colonia Florida
01030 México, D.F.
México

Telex:

BNSOME 01772619
BANOME 01762072
Mexico City

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Javed Burki

Regional Vice President
Latin America and the Caribbean

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

By /s/ José Luis Flores Hernández

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the

proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Consultant services under Parts A, B and D of the Project	19,300,000	100%
(2) Consultant services for the provision of training under Part C of the Project	3,200,000	50%
(3) Unallocated	2,500,000	
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TOTAL	25,000,000	
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2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$2,000,000, may be made on account of payments made for expenditures incurred within the twelve months prior to the date of this Agreement but after January 1, 1998.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for all contracts not subject to prior review pursuant to Part D.2 of Schedule 1 to the Guarantee Agreement, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Guarantor in achieving improvements in the health sector in Mexico by supporting reforms within IMSS through: (a) design and implementation of an IMSS regulatory and institutional framework for health services financing and insurance; (b) development, implementation and evaluation of the organizational and managerial changes required to increase the efficiency and quality of IMSS health service provision; and (c) management and financial training of IMSS staff.

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: Policy Design and Implementation

Provision of technical assistance to IMSS for the design and implementation of guidelines, policies, resolutions and/or regulations to underpin its reform efforts, including policies and regulations to: define a comprehensive package of benefits for individuals insured through IMSS; promote the introduction of user choice within Medical Area Units; extend the coverage of IMSS publicly subsidized health insurance; establish and apply mechanisms for the separation of IMSS financing and IMSS service provision; protect consumer rights within IMSS; and design and use a new IMSS beneficiary enrollment data base.

Part B: Institutional Strengthening

Provision of technical assistance to IMSS in support of: IMSS organizational and functional reforms; the design, implementation and evaluation of new management models in selected Medical Area Units and Specialty Hospitals; the introduction of a quality assurance program and client satisfaction survey system; and the design and

implementation of a performance-based incentive system for IMSS personnel and units.

Part C: Managerial and Technical Training

Provision of training to: IMSS high-level managers at central and regional levels, with regard to change management techniques; IMSS high-level managers of health facilities, with regard to basic management and motivational skills; IMSS middle-level staff, with regard to basic management development, technical skills and client orientation; IMSS middle-level physician managers, with regard to management of Medical Area Units; and IMSS bio-medical engineers and technicians, with regard to equipment and infrastructure maintenance.

Part D: Project Management

1. Establishment and operation of the PCU.
2. Carrying out of a public awareness campaign regarding IMSS reforms.
3. Design and application of an evaluation program (including performance benchmarks) to assess the effects of IMSS reform initiatives and guide such reform initiatives' implementation.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

- (a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.
- (b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.
- (c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.
2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:
 - (i) LIBOR Base Rate; plus
 - (ii) LIBOR Total Spread.
- (b) From the Rate Fixing Date for each Disbursed Amount until final repayment

thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

- (i) Fixed Base Rate; plus
- (ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

- (i) one half of one percent (1/2 of 1%);
- (ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period;

as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in Dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

- (i) one-half of one percent (1/2 of 1%);
- (ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount;

as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Guarantor and Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower and the Guarantor of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower or the Guarantor notifies the Bank during

said period of its objection thereto, in which case said modification shall not apply to the Loan.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each May 15 and November 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the twenty-fourth (24th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-eighteenth (1/18) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after November 15, 2013, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower and the Guarantor of the amortization schedule for such Disbursed Amount.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) 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 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 of \$2,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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 in 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 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; or

(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 the Project, shall equal 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.



