

**CONFORMED COPY**

**LOAN NUMBER 7346-ME**

# **Loan Agreement**

**(Tertiary Education Student Assistance Project)**

**between**

**UNITED MEXICAN STATES**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated April 7, 2006**

**LOAN NUMBER 7346-ME**

**LOAN AGREEMENT**

AGREEMENT, dated April 7, 2006, between the UNITED MEXICAN STATES (the Borrower) acting through its signatory on page 13 of this Agreement, and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project;

WHEREAS (B) the Borrower, through SEP (as hereinafter defined), has delivered to the Bank a letter dated November 3, 2005, describing the Borrower's tertiary education strategy to strengthen its student assistance program to foster the sustainable, equitable and efficient expansion of tertiary education (the Program), and declaring the Borrower's commitment to the execution of such Program;

WHEREAS (C) the Borrower has requested that the Bank support the Borrower's execution of the Program through a series of loans over a period of approximately ten (10) years to be utilized by the Borrower, or any other entity authorized by the Borrower, in the implementation of the Program;

WHEREAS (D) the Borrower has also requested the Bank to provide additional financing towards the financing of the Project by an agreement of even date herewith between the BANOBRAS (as hereinafter defined) and the Bank with the guarantee of the Borrower (the Supplemental Loan Agreement), whereby the Bank has agreed to provide such assistance in an aggregate principal amount equivalent to nine million Dollars (\$9,000,000) (the Supplemental Loan); and

WHEREAS (E) 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 Fixed-Spread Loans" of the Bank dated September 1, 1999 (as amended

through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on, or in respect of, any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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

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

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

(a) “ANUIES” means *Asociación Nacional de Universidades e Instituciones de Educación Superior*, the National Association of Mexican Universities and Tertiary

Education Institutions, created pursuant to a constitutive assembly held on March 25, 1950;

(b) “BANOBRAS” means *Banco Nacional de Obras y Servicios Públicos S.N.C.*, a Mexican development bank serving as the Borrower’s financial agent for purposes of the Loan;

(c) “Beneficiary” means a eligible tertiary education candidate who meets the criteria set forth in the Operational Manual (as hereinafter defined) to participate as a beneficiary of a student loan program implemented by a State Loan Agency (as hereinafter defined);

(d) “*Contrato de Mandato*” means the agreement to be entered between the Borrower (through SHCP and SEP (as hereinafter defined)) and BANOBRAS, pursuant to Section 3.02 (a) of this Agreement, as the same may be amended from time to time;

(e) “Eligible Categories” means Categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(g) “FMR” means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;

(h) “Grants” means the grants referred to in Part A.1 and Part C.2 of the Project;

(i) “Indigenous Peoples Development Plan” means the indigenous peoples development framework for the Project, dated April 15, 2005, that details an action plan to assist indigenous peoples overcome barriers to access to tertiary education, as said plan may be updated from time to time by agreement between the Bank and the Borrower;

(j) “Monitoring Indicators” means the indicators, set forth in the Operational Manual, for monitoring and evaluating progress towards the attainment of the Project’s objective;

(k) “Operational Manual” means the manual dated November 2, 2004 for the operation of the Project referred to in Section 3.04 (a) of this Agreement, as the same may be amended from time to time;

(l) “Pathways Indigenous Student Assistant Program” means a program administered by ANUIES to support tertiary education institutions in establishing and operating academic support units that academically and socially assist indigenous students to complete tertiary education;

(m) “PCU” means the Project coordination unit established under SEP, referred to in Section 3.05 (a) of this Agreement;

(n) “Procurement Plan” means SEP (as hereinafter defined)’s procurement plan, dated November 9, 2005, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.03 of this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(o) “PRONABES Scholarship Program” means the Borrower’s national scholarship program established under SEP (as hereinafter defined) to provide financial support to eligible candidates to successfully complete tertiary education;

(p) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(q) “SEP” means *Secretaría de Educación Pública*, the Borrower’s Secretariat of Public Education;

(r) “SHCP” means *Secretaría de Hacienda y Crédito Público*, the Borrower’s Secretariat of Finance and Public Credit;

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

(t) “State” means *Estado*, a political subdivision of the Borrower; and

(u) “State Loan Agencies” means any student loan agency operation in the territory of any State, which agency is established with the objective of implementing and managing student loan programs (including the provision of student loans to Beneficiaries) and which meets the criteria of the Supplemental Loan Agreement’s Operational Manual.

## **ARTICLE II**

### **The Loan**

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to one hundred and seventy one million Dollars (\$171,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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

Section 2.03. The Closing Date shall be March 1, 2010 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter, subject to any waiver of a portion of such commitment charge as may be determined by the Bank from time to time.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on June 1 and December 1 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. The *Sub Director de Planeación* of BANOBRAS, and any person or persons whom he or she shall designate in writing are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement; Part B of Schedule 1 to this Agreement and Article V of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. The Borrower declares its commitment to the objective of the Project, and, to this end, shall carry out Parts A, B and C of the Project, through SEP, with due diligence and efficiency and in conformity with the Operational Manual and with appropriate administrative, management, and financial and social practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower, through SHCP, shall enter into a contract (*Contrato de Mandato*) with BANOBRAS under terms acceptable to the Bank, whereby BANOBRAS agrees to act as financial agent of the Borrower with regard to the Loan, meaning that BANOBRAS agrees to, *inter alia*, represent the Borrower *vis-à-vis* the Bank for purposes of submitting Loan withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Borrower of Loan proceeds.

(b) The Borrower shall exercise its rights and carry out its obligations under the *Contrato de Mandato* in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank may otherwise agree, the Borrower shall not amend or fail to enforce any provision of the *Contrato de Mandato*.

(c) In case of any conflict between the terms of the *Contrato de Mandato* and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.03. (a) Except as the Bank shall otherwise agree, procurement of the goods and services required for Parts A, B and C of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through SEP, shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.04. (a) The Borrower, through SEP, shall maintain an operational manual, satisfactory to the Bank, containing, *inter alia*, specific provisions on detailed arrangements for the carrying out of Parts A, B and C of the Project, including: (i) the procurement, financial management and disbursement requirements thereof; (ii) the criteria for the selection, approval, implementation and monitoring of the provision of grants under Parts A.1 and C.2 of the Project; (iii) a model to be used in the preparation of FMRs; (iv) the Indigenous Peoples Development Plan; and (v) the Monitoring Indicators.

(b) If any provision of the Operational Manual is inconsistent with a provision of this Agreement, the provision of this Agreement shall prevail.

Section 3.05. (a) The Borrower, through SEP, shall operate and maintain, at all times during Project implementation, a coordination unit within SEP with structure, functions and responsibilities acceptable to the Bank which shall include, *inter alia*:

- (i) coordination of the implementation of Parts A, B and C of the Project;

- (ii) coordination of the evaluation of Parts A, B and C of the Project;
- (iii) preparation of the Operational Manual;
- (iv) processing of documentation required for disbursement of the Loan proceeds and for procurement of goods and services under Parts A, B and C of the Project; and
- (v) preparation of the financial statements and FMRs, and maintenance of the records and accounts referred to in Article IV of this Agreement.

(b) The Borrower, through SEP, shall ensure that the PCU is at all times adequately staffed with at least a Project manager, a procurement specialist and a financial management specialist, all with qualifications and experience acceptable to the Bank, operating under terms of reference satisfactory to the Bank.

Section 3.06. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through SEP, shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future sustainability of Parts A, B and C of the Project; and

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

Section 3.07. The Borrower, through SEP, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring Indicators, the carrying out of Parts A, B and C of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, for each year during the implementation of Parts A, B and C of the Project, semi-annual reports integrating the results of the monitoring and evaluation activities (including the status of the procurement and disbursements under Parts A, B and C of the Project) performed pursuant to paragraph (a) of this Section, on the progress achieved in the execution of Parts A, B and C of the Project during the period preceding the date of each said report and setting out the measures recommended to ensure the efficient carrying out of Parts A, B and C of the Project and the achievement of the objective thereof during the period following such date; and

(c) review with the Bank and BANOBRAS, by April and October of each year during the implementation of Parts A, B and C of the Project or such later date as the Bank shall request, each report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of Parts A, B and C of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of said report and the Bank's views on the matter.

Section 3.08. Without limitation to the provisions of Part B.6 (a) of Schedule 1 to this Agreement:

(a) if the Bank determines at any time, through regular Project supervision and auditing, that: (i) an amount of the Loan, disbursed pursuant to Categories (3) and (4) in the table in Part A.1 of Schedule 1 to this Agreement, was not used to finance the grants under Parts A or C.2 of the Project; or (ii) the recipients of said grants shall not have used the funds from said grants for purposes of the Project in accordance with the terms of the Operational Manual and those of this Agreement, the Borrower, through SEP, shall promptly furnish to the Bank additional evidence, as the Bank may request, to justify the use of said amount of the Loan, (in the case of such a request made by the Bank within one month before the Closing Date, the Borrower shall have up to four months after the Closing Date to furnish the requisite additional evidence to the Bank); and

(b) in the event that the evidence referred to in paragraph (a) of this Section is not furnished to or found satisfactory by the Bank, the Bank reserves the right at all times to request a refund of the corresponding portion of the Loan for inclusion in the Loan Account.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower, through SEP, shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to Parts A, B and C of the Project.

(b) The Borrower, through SEP, shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may 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 reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower, through SEP, shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.07 of this Agreement, the Borrower, through SEP, shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which sets forth sources and uses of funds for Parts A, B and C of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

## **ARTICLE V**

### **Remedies of the Bank**

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified, namely, that BANOBRAS shall have failed to perform any of its obligations under the *Contrato de Mandato* and/or under the Supplemental Loan Agreement.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that any event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of 90 calendar days after notice thereof shall have been given by the Bank to the Borrower.

## **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, namely that, the *Contrato de Mandato* has been duly executed by the parties thereto.

Section 6.02. The date July 6, 2006 is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VII**

### **Representative of the Borrower; Addresses**

Section 7.01. Except as provided in Section 2.10 of this Agreement, the *Titular de la Unidad de Crédito Público* of SHCP 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 Borrower:

Secretaría de Hacienda y Crédito Público  
Unidad de Crédito Público  
Palacio Nacional  
Patio Central  
3er piso, oficina 3010  
Colonia Centro  
06000 México, D.F.

Facsímile: 011-52-55-9158-1156

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

UNITED MEXICAN STATES

By /s/ Gerardo Rodríguez Regordosa  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Isabel Guerrero  
Authorized Representative

## SCHEDULE 1

### Withdrawal of the Proceeds of the Loan

#### A. General

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

<u>Category</u>	Amount of the Loan Allocated (Expressed in <u>Dollars</u> )	% of Expenditures to be financed
(1) Goods	210,500	85%
(2) Consultants' services and training	3,254,000	100%
(3) Scholarship grants provided by SEP pursuant to Part A.1 of the Project	161,960,000	70% of the amounts disbursed by SEP in the form of such grants
(4) Grants provided by SEP pursuant to Part C.2 of the Project	4,930,000	85% of the amounts disbursed by SEP in the form of such grants
(5) Front-end fee	427,500	Amount due under Section 2.04 of this Agreement
(6) Premia for Interest Rate Caps and Interest Rate Collars	00	Amounts due under Section 2.09 (c) of this Agreement
(7) Unallocated	218,000	
TOTAL	<u>171,000,000</u>	

2. For the purposes of this Schedule the term “training” means the reasonable non-consultant expenditures incurred by the Borrower in connection with the carrying out of training activities (including workshops, conferences and seminars) under Parts A, B and C of the Project, including travel costs, per diem of trainers, trainees, facilitators and stakeholders, and training materials.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$17,000,000, may be made on account of payments made for expenditures during the twelve months before that date but after April 29, 2005.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for which no Bank prior review is contemplated in the Procurement Plan.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may, for the purposes of Parts A, B and C of the Project, cause BANOBRAS to open and maintain in Dollars a special deposit account on behalf of the Borrower, either: (i) in the Borrower’s Central Bank on terms and conditions satisfactory to the Bank; (ii) in BANOBRAS on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment; or (iii) in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

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

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

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

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

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

(c) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

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

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

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

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

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

**Annex A  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Not  
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of seventeen million Dollars (\$17,000,000) to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

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

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

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

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are  
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to support the Borrower's strategy to foster the sustainable and equitable and efficient expansion of tertiary education through student assistance through the development of a coherent student assistance system consisting of student loan and grant programs, compensatory interventions for disadvantaged students, and supporting the national tertiary education policy.

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 objective.

#### Part A: Tertiary Education Student Assistance

Supporting the Borrower's national scholarship program and the development of a national regulatory framework for tertiary education student assistance through:

1. provision of scholarship grants to support the PRONABES Scholarship Program; and
2. provision of technical assistance, training and equipment (as necessary) to assist the Borrower in developing a comprehensive framework for its national student assistance programs, including *inter alia*:
  - (a) verification of the application of the PRONABES Scholarship Program targeting criteria;
  - (b) enhancement of the PRONABES Scholarship Program management information system;
  - (c) strengthening of the PRONABES Scholarship Program for the supervision of state-level program implementation;
  - (d) organization of workshops for the design and implementation of national guidelines for state-level student loan programs (in collaboration with BANOBRAS) and for the creation and development of student loan programs in other interested states; and
  - (e) carrying out of feasibility studies for a reimbursable grant scheme whereby students pay a share of their future market-earnings into a national scholarship fund to be used in the financing of future student grants.

Part B: Analysis and Institutional Strengthening

Supporting national tertiary education policy and the strengthening of sector institutions through the provision of technical assistance and training, including *inter alia*:

1. creation of a reliable database on the labor market performance of tertiary education graduates and on national accredited tertiary education programs, and design and implementation of a public dissemination campaign;
2. carrying out of various analytical studies to serve as a basis for the strengthening of tertiary education policy; and
3. carrying out of a consolidated assessment of the Borrower's student assistance programs and dissemination of the results of said assessment.

Part C: Disadvantaged Students Assistance

Supporting more equitable access to, and completion of, tertiary education by poor talented students, through interventions designed to compensate for academic, social and informational disadvantages they face, including:

1. testing of interventions that seek improvement of the opportunities for talented lower-income, upper secondary students to enroll in tertiary education; and
2. provision of grants to ANUIES to support the expansion of the Pathways Indigenous Student Assistant Program.

Part D: Student Loan Programs

Supporting financially sustainable State student loan programs that are consistent with the Program through:

1. provision of loans to State Student Loan Agencies for the financing of their student loan programs aimed at providing financial assistance to Beneficiaries; and
2. provision of technical assistance, training and equipment (as necessary) for the institutional strengthening of State Student Loan Agencies and for the monitoring and evaluation of the Project.

\* \* \*

The Project is expected to be completed by August 31, 2009.

### SCHEDULE 3

#### Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each June 1 and December 1	
Beginning June 1, 2011 through December 1, 2020	5%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each

Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

## **SCHEDULE 4**

### **Procurement**

#### Section I. General

A. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

#### Section II. Particular Methods of Procurement of Goods and Services (other than Consultants' Services)

Shopping. Goods and Services (other than Consultants' services) procured by the Borrower's public institutions, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

#### Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

#### B. Other Procedures

1. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines

may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Bank.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.