

CONFORMED COPY

LOAN NUMBER 3310 ME

(Decentralization and Regional Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

NACIONAL FINANCIERA, S.N.C.

Dated June 26, 1991

LOAN NUMBER 3310 ME

LOAN AGREEMENT

AGREEMENT, dated June 26, 1991, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NACIONAL FINANCIERA, S.N.C. (the Borrower).

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

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the

foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (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) "Annual Operating Plan" means the annual operating plan (plan operativo anual), of each Project State (as hereinafter defined) referred to in Section 3.05 (a) (i) of the Guarantee Agreement;

(b) "CAPFCE" means the Guarantor's Administrative Committee for the Federal School Construction Program, Comite Administrador del Programa Federal de Construccion de Escuelas;

(c) "CFE" means the Guarantor's Federal Electricity Commission, Comision Federal de Electricidad;

(d) "CNA" means the Guarantor's National Water Commission, Comision Nacional del Agua;

(e) "CUD" means the annual agreement (Convenio Unico de Desarrollo) entered into between the Guarantor and a Project State for each Fiscal Year (as hereinafter defined) and referred to in Section 3.02 (a) (iii) of the Guarantee Agreement;

(f) "Executing Agencies" means the Federal Entities (as hereinafter defined), Project States (through the State Entities as hereinafter defined) and Participating Municipalities (as hereinafter defined), and "Executing Agency" means any one of such entities;

(g) "Federal Decentralization Program" means the Guarantor's program of actions and timetables therefor designed to further its process of administrative decentralization in each of the Project States as such program is described in the policy letter addressed to the Bank, dated February 27, 1991 and signed by SPP, and including actions in the agricultural and roads sectors as described in the SARH matrix presented to SPP by letter dated January 31, 1991 and the SCT matrix presented to SPP by letter dated October 4, 1990 (which matrices were subsequently presented to the Bank);

(h) "Federal Entity" means any of the departments, agencies or entities within the Guarantor's federal public administration, centralized and decentralized (paraestatal), which departments, agencies or entities participate in the execution of the Project and include the following: SEDUE, SARH, CFE, CAPFCE, CNA, INAH, SPP, INI and SCT and "Federal Entities" means collectively all such entities;

(i) "Federal Project Unit" means the special coordinating group established by the Guarantor within SPP (as hereinafter defined) for purposes of assisting in the coordination and implementation of the Project;

(j) "Fiscal Year" means the fiscal year of the Guarantor, beginning on January 1 and ending on December 31 of each year;

(k) "INAH" means the Guarantor's National Institute of Anthropology and History, Instituto Nacional de Antropologia e

Historia:

(l) "INI" means the Guarantor's National Indigenous Institute, Instituto Nacional Indigenista;

(m) "Investment Subproject" means a project consisting of investments in works, and/or goods and/or services, and which project is: (i) described in Part A of the Project and included in the budgetary line items (Aperturas Programaticas) 3F, EA, FD, EK, EU, 5F and EC/D referred to in the PNS Manual (as hereinafter defined); (ii) selected and appraised in a manner satisfactory to the Bank; (iii) included in an Annual Operating Plan approved by the Bank; and (iv) carried out in the Project Area (as hereinafter defined);

(n) "Item" means any of the seven subparts under Part A of the Project, namely: Agricultural Promotion and Extension; Irrigation; Agroindustry; Education; Rural Roads; Water Supply and Sanitation; and Rural Electrification;

(o) "Lacandona Protection Plan" means a plan, set forth in a document presented to the Bank on December 14, 1990, entitled Programa de Conservacion de la Selva Lacandona, detailing a program of actions, objectives and policies to be implemented according to a specified timetable, by the Guarantor and the State of Chiapas, for the purpose of protecting the environmental integrity of the Selva Lacandona region in the State of Chiapas, which region includes the Montes Azules Reserve Area (as hereinafter defined);

(p) "large road" means any road classified as Type A, B, C or D (Tipo de Carreteras A, B, C or D) under SCT's Normas de Servicios Tecnicos, Libro 2, Parte 2.01 Proyecto Geometrico, Titulo 2.01.01 Carreteras (Tabla 002-1) dated 1984;

(q) "Local Solidarity Committee" means Comite Local de Solidaridad, a local community association which: (i) participates in the execution of an Investment Subproject to be carried out by a Participating Municipality (as hereinafter defined) through a Municipal Solidarity Fund (as hereinafter defined); and (ii) has entered into a contract (Convenio) with such Participating Municipality (as hereinafter defined) in accordance with the MSF Operational Directive (as hereinafter defined) and "Local Solidarity Committees" means collectively all such associations;

(r) "Monitoring and Evaluation System" means a system, satisfactory to the Bank, to be established by the Guarantor, through SPP (as hereinafter defined), for the monitoring and evaluation of the Project at the federal, state and local level;

(s) "Montes Azules Reserve Area" means the area described in Article 2 of the presidential decree appearing on pages 6-8 of the Guarantor's Diario Oficial for January 12, 1978;

(t) "MSF Operational Directive" means the 1991 operational directive for the Project States and Participating Municipalities, satisfactory to the Bank, issued by SPP and setting forth the policies, rules and procedures regarding the execution of Investment Subprojects through Municipal Solidarity Funds (as hereinafter defined) by Participating Municipalities (as hereinafter defined), as such operational directive may be amended annually or from time to time;

(u) "Municipal Solidarity Fund" means a Fondo Municipal de Solidaridad, a revolving fund established by the Guarantor, through SPP, a Project State and a Participating Municipality therein through a Municipal Solidarity Fund Agreement (as hereinafter defined) for purposes of financing Investment Subprojects to be undertaken by such Participating Municipality (as hereinafter defined);

(v) "Municipal Solidarity Fund Agreement" means the annual agreement to be entered into between the Guarantor, through SPP, a

Project State and Participating Municipality therein in accordance with Section 3.02 (a) (ii) of the Guarantee Agreement, and "Municipal Solidarity Fund Agreements" means collectively all such agreements;

(w) "Operational Guidelines" means the rules and procedures for the appraisal and selection of Investment Subprojects, excluding those investment subprojects carried out by a Participating Municipality through a Municipal Solidarity Fund, as such rules and procedures are described in the SPP's annex to the PNS Manual entitled Guías para la Elaboración de Expedientes Técnicos Simplificados dated March 1990;

(x) "Participating Municipality" means any municipality (including its agencies and entities owned or controlled by such municipality) in a Project State (as hereinafter defined) participating in the execution of the Project and such term shall include any agency or entity which may be established by the respective Participating Municipality as a result of the implementation of the Program;

(y) "Participation Agreements" means collectively the Project State Agreements and Municipal Solidarity Fund Agreements and "Participation Agreement" means any of such agreements;

(z) "PNS" means the Guarantor's National Solidarity Program, Programa Nacional de Solidaridad;

(aa) "PNS Manual" means the 1991 operational manual for the Project States (Manual Unico de Operación), satisfactory to the Bank, adopted by SPP (as hereinafter defined) and setting forth, among other matters, the operational policies, procedures and rules regarding the execution of Investment Subprojects, excluding Investment Subprojects to be carried out by Participating Municipalities through a Municipal Solidarity Fund, as such operational manual may be amended annually or from time to time in agreement with the Bank and such operational manual includes the Operational Guidelines and all of its other annexes;

(bb) "poverty alleviation indicators" means the sectoral and regional annual indicators reflecting the poverty alleviation objectives of the Project for each Project State, as such indicators are described in the letter signed by the Bank and the Guarantor of even date herewith;

(cc) "Program" means collectively the Federal Decentralization Program and each Project State Program;

(dd) "Project Area" means the territories of all the Project States;

(ee) "Project State Agreement" means the annual agreement (referred to in Section 3.02 (a) (i) of the Guarantee Agreement) entered into between the Guarantor and a Project State for each Fiscal Year in connection with the CUD that is in effect for that Project State, and "Project State Agreements" means collectively all such agreements;

(ff) "Project State Program" means any of the programs of actions regarding decentralization, revenue-sharing and tax collection contained in each Project State Agreement;

(gg) "Project States" means the states of Chiapas, Guerrero, Hidalgo and Oaxaca located within the territory of the Guarantor and "Project State" means any of such states;

(hh) "Regional Planning Center" means each of the SPP regional offices (residencias) located in the following regions within each Project State: 1. State of Guerrero: Cd. Altamirano, Iguala, Chilpancingo, Tlapa, Atoyac, Sn. Marcos and Acapulco; 2. State of Hidalgo: Pachuca, Tulancingo, Tula, Huichapan, Jacala, Mexitlan and Huejutla; 3. State of Oaxaca: Teotitlan de Flores

Magon, Pinotepa Nacional, Tehuantepec, Huajuapán de León, Guelatao, Miahuatlán de Porfirio Díaz, Tuxtepec and Oaxaca; and 4. State of Chiapas: Tuxtla Gutiérrez, San Cristóbal de las Casas, Comitán de Domínguez, Villa Flores, Pichucalco, Palenque, Motozintla, Tapachula and Tonala and "Regional Planning Centers" means collectively all such SPP regional offices;

(ii) "SARH" means the Guarantor's Secretariat of Agriculture and Water Resources, Secretaría de Agricultura y Recursos Hidráulicos;

(jj) "SCT" means the Guarantor's Secretariat of Communications and Transportation, Secretaría de Comunicaciones y Transportes;

(kk) "SECOGEF" means the Guarantor's Secretariat of the Comptroller General of the Federation, Secretaría de la Contraloría General de la Federación;

(ll) "SEDUE" means the Guarantor's Secretariat of Urban Development and Ecology, Secretaría de Desarrollo Urbano y Ecología;

(mm) "Selva Lacandona Region" means the region to which the Lacandona Protection Plan applies;

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

(oo) "SPP" means the Guarantor's Secretariat of Programming and Budgeting, Secretaría de Programación y Presupuesto;

(pp) "SPP Monitoring and Evaluation Unit" means the unit established within the Federal Project Unit in accordance with the Monitoring and Evaluation System for purposes of monitoring and evaluating the implementation of the Project;

(qq) "State Entities" means each Project State's agencies and entities owned or controlled by the respective Project State and such term shall also include any agency or entity which may be established by the respective Project State as a result of the implementation of the Program;

(rr) "State Project Unit" means the special coordinating group established by each Project State for purposes of assisting in the coordination and implementation of the Project;

(ss) "Type A Investment Subproject" means an investment subproject with an estimated cost of less than \$25,000 equivalent;

(tt) "Type B Investment Subproject" means an investment subproject with an estimated cost of \$25,000 equivalent or more, up to and including \$200,000 equivalent; and

(uu) "Type C Investment Subproject" means an investment subproject with an estimated cost of more than \$200,000 equivalent.

## 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 three hundred and fifty million dollars (\$350,000,000), 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 works,

goods, and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1995, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate 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) o

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

Section 3.02. The Borrower shall participate in the annual reviews referred to in Section 3.05 (b) of the Guarantee Agreement.

Section 3.03. Except as the Bank shall otherwise agree, procurement of goods, works and consultant's services required for the Project and to be financed from the proceeds of the Loan, shall be governed by the provisions of Schedule 4 to this Agreement.

### ARTICLE IV

#### Financial Covenants

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

(b) The Borrower shall:

- (i) have such separate records and accounts referred to in paragraph (a) 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:

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

#### ARTICLE V

##### Remedies of the Bank

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

(a) that any Project State shall have failed to perform any of its obligations under its respective Project State Agreement or to comply with the terms of the PNS Manual. In such a case, the Bank may, after consultation with and by notice to the Borrower and Guarantor, only suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account for expenditures incurred by the Project State in question. At the request of the Borrower and the Guarantor, the Bank may reallocate Loan proceeds subject to such suspension to Project States which are in compliance with their Project State Agreements and with the terms of the PNS Manual;

(b) that any Participating Municipality shall have failed to perform any of its obligations under its respective Municipal Solidarity Fund Agreement. In such a case, the Bank may, after consultation with and by notice to the Borrower and the Guarantor, only suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account for expenditures incurred by the Participating Municipality in question. At the request of the Borrower and the Guarantor, the Bank may reallocate Loan proceeds subject to such suspension to Participating Municipalities which are in compliance with their Municipal Solidarity Fund Agreements;

(c) the Federal Decentralization Program or any part thereof shall have not been implemented or any situation has arisen which shall make it improbable that such program, or any part thereof, will be implemented;

(d) any situation has arisen which shall make it improbable that a Project State Program, or any part thereof, shall be implemented;

(e) that the Guarantor or any other authority having jurisdiction shall have taken any action which may materially and adversely affect the implementation of the Project or any Part thereof; and

(f) that the Bank, the Guarantor and the State of Chiapas



have failed to reach an agreement in respect of any of the annual operational programs for the execution of the Lacandona Protection Plan referred to in Section 3.05 (a) (ii) of the Guarantee Agreement. In such a case, suspension may be limited to the State of Chiapas, and reallocation allowed, just as under Section 5.01 (a) of this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) that the suspension referred to in Section 5.01 (a) of this Agreement shall have been in effect for all Project States simultaneously for a continuous period of 90 days;

(b) that the suspension referred to in Section 5.01 (b) of this Agreement shall have been in effect for 85 Participating Municipalities simultaneously for a continuous period of 90 days; and

(c) any of the events specified in Section 5.01 (c), (e) or (f) 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 Guarantor and the Borrower shall have entered into the contractual arrangements referred to in Section 3.01 of this Agreement;

(b) that the Guarantor and each of the Project States shall have entered into a CUD and a Project State Agreement which are formally in effect (or deemed to be in effect for purposes of this Project as set forth in Section 3.02 (a) of the Guarantee Agreement) as of the Effective Date;

(c) that the Monitoring and Evaluation System shall have been established and made operational by the Guarantor, through SPP, in a manner and under conditions satisfactory to the Bank;

(d) that the Guarantor, through SECOGEF, has prepared terms of reference, satisfactory to the Bank, for audits for the Project States and Participating Municipalities;

(e) that the Guarantor has employed consultants for assisting in the implementation of Part D of the Project and of the Monitoring and Evaluation System; and

(f) that the Guarantor shall have submitted to the Bank the first annual programs of institutional development, satisfactory to the Bank, in respect of each Project State.

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 each Project State Agreement, as well as the contractual arrangements referred to in Section 3.01 of this Agreement, have been duly authorized or ratified by, and executed and delivered on behalf of, the Guarantor and are legally binding upon the Guarantor in accordance with their terms;

(b) that the respective Project State Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Project State in question and is legally binding upon the respective Project State, in accordance with its terms; and

(c) that the contractual arrangements referred to in Section 3.01 of this Agreement have been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and are legally binding upon the Borrower in accordance with their terms.

Section 6.03. The date September 26, 1991 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:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

For the Borrower:

Direccion Internacional  
Nacional Financiera, S.N.C.  
Plaza NAFINSA, Insurgentes Sur 1971  
Torre Sur, piso 11  
01020 Mexico, D.F.  
Mexico

Cable address:

NAFIN  
Mexico City

Telex:

NAFIME 383-1775765  
Mexico City

Fax: 548-5191

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Rainer B. Steckhan  
Acting Regional Vice President  
Latin America and the Caribbean

NACIONAL FINANCIERA, S.N.C.

By /s/ Oscar Espinosa Villareal  
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 Dollar Equivalent)	% of Expenditures to be Financed
(1) Works, goods, construction materials (other than those covered by Categories (3) and (4) below) and services under Part A of the Project	224,000,000	50%
(2) Works, goods and services under Parts B and C of the Project	35,000,000	100%
(3) Construction materials acquired by direct purchasing under Part A of the Project	40,000,000	50%
(4) Goods acquired by direct purchasing under Part A of the Project	10,000,000	50%

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(5) Construction materials under Parts B and C of the Project	8,000,000	100%
(6) Goods and services under Part D of the Project	18,000,000	100%
(7) Unallocated	15,000,000	
TOTAL	350,000,000 =====	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$35,000,000, may be made on account of payments made for expenditures within twelve months before that date but in no case before May 1, 1990, provided that such withdrawals be

submitted to the Bank not later than six months after the Loan Agreement becomes effective;

(b) for expenditures incurred for labor in respect of civil works carried out through force account or direct contracting;

(c) in respect of expenditures incurred in a Project State during 1991, 1992 and 1993 for Type B Investment Subprojects, unless the Bank has received for each respective year copies of the appraisal reports, satisfactory to the Bank, of, at least, two Type B Investment Subprojects covering two Items in such particular Project State (for a total of two Type B Investment Subprojects per Project State). The combination of all Type B Investment Subprojects presented for purposes of this subparagraph per year must involve at least two Type B Investment Subprojects per Item;

(d) in respect of expenditures incurred in a Project State during 1991, 1992 and 1993 for Type C Investment Subprojects, unless the Bank has received for each respective year copies of the appraisal reports, satisfactory to the Bank, of, at least, two Type C Investment Subprojects covering two Items in such particular Project State (for a total of two Type C Investment Subprojects per Project State). The combination of all Type C Investment Subprojects presented for purposes of this subparagraph per year must involve at least two Type C Investment Subprojects per Item;

(e) in respect of expenditures incurred by a Project State or Participating Municipality therein unless a legally valid CUD and Project State Agreement have been entered into (or are deemed to be in effect as set forth in Section 3.02 (a) of the Guarantee Agreement) for the date on which such expenditures were incurred; and

(f) in respect of expenditures for any activity or investment under Part C.4 of the Project unless such activity or investment is included in an annual operational program approved by the Bank pursuant to Section 3.05 (a) (ii) of the Guarantee Agreement.

## SCHEDULE 2

### Description of the Project

This Project is part of the PNS and its overall objective is to increase the access of poor and indigenous inhabitants in the Project States to basic infrastructure, social services, markets and technologies. Other specific objectives of the Project are to: (a) assist the Project States in developing, executing and financing investment programs with a strong poverty alleviation focus; (b) assist the federal and state planning and budgeting ministries in improving their efficiency in the selection, environmental assessment, monitoring and evaluation of projects and increasing financing flexibility; and (c) strengthen the decentralized state and municipal entities to identify, prepare, build, operate and maintain their investments in a more participatory 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: Investment Subprojects

Carrying out by the Executing Agencies of investment sub-projects in the following areas:

1. Agricultural Promotion and Extension. Agricultural promotion and extension including forestation, plant nursery, soil conservation, watershed protection, drainage, horticulture, animal husbandry, plant and animal disease control and coffee plantation rehabilitation.

2. Irrigation. Construction and rehabilitation of small-scale irrigation schemes.

3. Agroindustry. Processing of fruits, vegetables, and fisheries and animal produce.

4. Education. Construction and rehabilitation of public primary and secondary schools.

5. Rural Roads. Construction, rehabilitation, modernization and extension of rural, state feeder roads and bridges; and maintenance of such roads. Roads and bridges in the Montes Azules Reserve Area are excluded.

6. Water Supply and Sanitation. Construction and rehabilitation of water supply, drainage and sewerage systems and extension of water supply, drainage and sewerage systems.

7. Rural Electrification. Construction of electricity supply networks and transmission lines, and installation of transmission lines and connection of rural communities to the electricity supply network.

Part B: Cultural Site Restoration

Carrying out the following activities by INI and INAH:

1. Restoration of archaeological sites selected by INAH in the Project Area.

2. Preparation of an inventory of archaeological sites located in the States of Chiapas and Oaxaca.

Part C: Environmental Protection

1. Assistance in the implementation of environmental screening and assessment measures related to the Project including: (a) the provision of technical assistance to SEDUE and environmental agencies of the Project States; and (b) the carrying out of studies to define environmental strategies in key areas and subsectors such as local or regional master plans for water supply, drainage, sanitation, micro or macro zoning plans, management of forest resources and protection of watersheds.

2. A program to consolidate the system of protected areas in each Project State through a set of actions including: (a) field level demarcation and land tenure regularization programs; (b) establishment and implementation of management plans; and (c) carrying out of related studies.

3. Technical assistance for purposes of consolidating federal and state legislation in environmental related areas, such assistance to include training programs and studies.

4. A program to protect the environmental integrity of the Selva Lacandona Region in the State of Chiapas.

5. Strengthening of the institutional capacity of SEDUE delegations in the Project States and of environmental agencies of the Project States and municipalities therein, such assistance to include training, acquisition of materials and equipment and consultants' services.

Part D: Institutional Strengthening

Strengthening of the institutional capacity of the Guarantor, Project States and municipalities therein for the implementation of the Project and the Program, through acquisition of materials and equipment, training and consultants' services.

\* \* \*

The Project is expected to be completed by June 30, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 15 and November 15	
beginning November 15, 1996 through November 15, 2007	14,585,000
On May 15, 2008	14,545,000

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\* 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 3 years before maturity	0.18
More than 3 years but not more than 6 years before maturity	0.35
More than 6 years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works 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 May 1985 (the Guidelines).

2. All procurement of civil works, materials and equipment, whether or not under international competitive bidding procedures, shall take place using standard bidding documents which are satisfactory to the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods 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. Contracts for civil works estimated to cost less than \$5,000,000 equivalent and more than \$150,000 equivalent, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.
2. Contracts for goods, estimated to cost more than \$50,000 equivalent but less than \$250,000 equivalent, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.
3. Contracts for goods, estimated to cost \$50,000 equivalent or less and contracts for works estimated to cost \$150,000 equivalent or less, not to exceed an aggregate amount of \$20,000,000 equivalent for goods and \$100,000,000 equivalent for works, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers, eligible under the Guidelines, in accordance with procedures acceptable to the Bank.
4. Contracts for goods, estimated to cost \$5,000 equivalent or less, and contracts for construction materials, estimated to cost \$15,000 equivalent or less, not to exceed an aggregate amount equivalent to \$20,000,000 for such goods and \$80,000,000 for such construction materials, may be acquired by means of direct purchasing by Participating Municipalities using their Municipal Solidarity Funds. In no case shall more than \$5,000 equivalent of goods and \$15,000 equivalent of construction materials be acquired through direct purchasing for any particular Investment Subproject.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:
  - (a) With respect to: (i) the first three contracts in each Project State for civil works procured under the procedures referred to in Part C.1 of this Schedule; (ii) each contract for civil works estimated to cost over \$2,500,000 equivalent and procured under the procedures referred to in Part C.1 of this Schedule; (iii) the first three contracts in each Project State for goods procured under the procedures referred to in Part C.2 of this Schedule; and (iv) each contract for civil works estimated to cost over \$5,000,000 equivalent and each contract for goods estimated to cost \$250,000 equivalent or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for 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 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Bank has authorized withdrawals on the basis of statements of expenditure.

2. The figure of 20% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

In order to assist the Guarantor and the Project States in carrying out the Project, the Guarantor and the Project States shall 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 August 1981.

### SCHEDULE 5

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means any of the Categories 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 \$35,000,000 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. The Borrower shall make withdrawals from the Special Account for payments of Eligible Expenditures on the basis of the evidence that the Bank shall have reasonably determined and shall debit the Special Account with the amount in dollars so withdrawn or with the Dollar equivalent of the currency other than dollars in which the payment was made, determined on the basis of the rate of exchange between the dollar and such currency in effect: (i) on the date of each payment if the withdrawal from the Special Account in respect of such payment has been made within 90 days of the date of such payment; or (ii) on the date each withdrawal shall have been made.

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 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; or

(b) 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 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.

