

CONFORMED COPY

LOAN NUMBER 3272 ME

(Basic Health Care Project)

between

UNITED MEXICAN STATES

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated April 12, 1991

LOAN NUMBER 3272 ME

GUARANTEE AGREEMENT

AGREEMENT, dated April 12, 1991, between UNITED MEXICAN STATES (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to one hundred eighty million dollars (\$180,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan and to undertake such other obligations as provided in this Agreement; and

WHEREAS the Guarantor, in consideration of the Bank's entering

into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower and to undertake such other obligations as provided in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth in Section 1.01 of the Loan Agreement (the General Conditions), constitute an integral part of this Agreement.

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

#### ARTICLE II

##### Guarantee; Provision of Funds

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement and, to this end, shall carry out the Project through SSA, in conjunction with the Project States, with due diligence and efficiency and in conformity with appropriate health, financial, environmental and administrative standards and practices. Without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, the punctual performance of all the other obligations of the Borrower as set forth in the Loan Agreement and the punctual performance of all the obligations of the Project States as set forth in the Participation Agreements referred to in Sections 3.06, 3.07 and 3.08 of this Agreement.

Section 2.02. The Guarantor shall provide and also cause the Project States, pursuant to Section 3.06 (d) of this Agreement, to provide, in a timely manner as needed, the funds, facilities, services and other resources required for the Project. Included in such obligation is the provision of funding for health sector recurrent costs, new staff for health facilities built or improved under the Project and salaries for health sector staff in accordance with the results of the annual reviews referred to in Section 3.16 of this Agreement.

#### ARTICLE III

##### Other Covenants

Section 3.01. The Guarantor shall enter into the contractual arrangements referred to in Section 3.01 of the Loan Agreement and, except as the Bank shall otherwise agree, shall not change or fail to enforce any provisions of such contractual arrangements.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 3.03. The Guarantor, through SSA, shall maintain a Federal PCU within the SSA, at a level equivalent to that of an SSA Direccion General, for the general purpose of coordinating execution of the Project. Such Federal PCU shall have the characteristics specified in the October 11, 1990 letter, regarding the Federal PCU and Project State PCUs, furnished to the Bank by the SSA.

Section 3.04. The Guarantor, through SSA, shall maintain a Project State PCU, within each of the Territorial Entities of the SSA in the Distrito Federal and the states of Chiapas, Hidalgo and Oaxaca, for the general purpose of, under supervision of the Federal PCU, coordinating execution of the Project within those Project States. Each such Project State PCU shall have the characteristics specified in the October 11, 1990 letter, regarding the Federal PCU and Project State PCUs, furnished to the Bank by the SSA.

Section 3.05. (a) The Guarantor shall cause to be maintained five sets of separate records and accounts adequate to reflect, in accordance with sound accounting practices, the resources and expenditures in connection with its execution of the Project. One set, maintained through SSA, shall reflect the resources and expenditures in connection with its execution of the entire Project. The other sets, one for each of the Distrito Federal and the states of Chiapas, Hidalgo and Oaxaca, shall be maintained through the respective Project State PCUs, under supervision by the Federal PCU and with assistance from the SPP delegation in each of those Project States, and shall each reflect the resources and expenditures in connection with its execution of the Project in or for the respective Project State.

(b) The Guarantor shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with generally accepted auditing standards and procedures, by independent and qualified auditors;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, a certified copy of 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 such other information concerning said records and accounts as well as the audit thereof as the Bank shall from time to time reasonably request; and
- (iv) cause SECOGEF to comply with its obligations set forth in the agreement referred to in Section 3.06 (b) (ii) of this Agreement.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, and for all expenditures with respect to which withdrawals were made from the Special Account, the Guarantor shall provide to the Borrower all records and accounts necessary to allow the Borrower to perform its obligations punctually under Section 4.01 of the Loan Agreement and Schedule 5 to the Loan Agreement.

(d) Once a Project State has entered into an amended Participation Agreement referred to in Section 3.08 of this Agreement, the Guarantor need no longer maintain the set of separate records and accounts, for that particular Project State, referred to in paragraph (a) of this Section. However, the Guarantor shall complete performance of all its obligations, set forth in paragraphs (b) and (c) of this Section, that may remain pending with regard to that set of separate records and accounts which it need no longer maintain.

Section 3.06. The Guarantor, through SSA and SPP, shall enter into a separate Participation Agreement, satisfactory to the Bank, with each of the Project States, whereby each of those Project States agrees to:

(a) have the terms of Schedule 4 to the Loan Agreement govern with regard to any procurement by the Project State in

question, or by any municipality or other jurisdiction therein, of contracts for goods, works or consulting or other services to be financed out of the proceeds of the Loan;

- (b) (i) maintain, or cause to be maintained, separate records and accounts adequate to reflect, in accordance with sound accounting practices, the resources applied and expenditures incurred by the government of the Project State in question, or by the government of any municipality or other jurisdiction therein, in connection with its execution of the Project;
- (ii) perform, or cause to be performed, in collaboration with SECOGEF, the obligations with regard to such records and accounts as set forth in the agreement between the Bank and SECOGEF entitled *Providencias de Auditoria Externa para la Ejecucion del Programa Solidaridad-SSA por parte de la Secretaria de Salud y los Estados Participantes* (External Auditing Arrangements Regarding the Health Secretariat's and Project States' Execution of Solidaridad-SSA); and
- (iii) perform, or cause to be performed, the same obligations with regard to the records and accounts referred to in paragraph (b) (i) of this Section as the Guarantor must perform with regard to the Guarantor's records and accounts pursuant to Section 3.05 (b) (iii) and (c) of this Agreement.

(c) carry out, or cause to be carried out, the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions with regard to parts of the Project carried out by the Project State in question or by any municipality or other jurisdiction therein;

(d) provide, or cause to be provided, in a timely manner as needed, a portion, consistent with the Decentralization Action Plan, of the funds, facilities, services and other resources required to carry out the Project in the Project State in question; and

(e) have its share of Loan proceeds withheld upon application of the provisions of Section 5.01 of the Loan Agreement or paragraph 7 of Schedule 5 to the Loan Agreement.

Section 3.07. The Participation Agreement entered into with the state of Guerrero pursuant to Section 3.06 of this Agreement shall also include provisions whereby the state of Guerrero agrees to:

(a) maintain a Project State PCU within SESA for the general purpose of, in cooperation with the Federal PCU, coordinating execution of the Project within the state of Guerrero. Such Project State PCU shall in all other respects be governed by terms identical to those set forth for other Project State PCUs in the letter referred to in Section 3.04 of this Agreement, except that it shall be assisted by support staff positions already existing within SESA;

(b) contribute data required for proper operation of the HMIS and for proper compilation of data regarding the M&E Indicators;

(c) prepare and carry out, in conjunction with SSA, the SESA Maintenance Plan and SESA Human Resources Training Plan, all satisfactory to the Bank, addressing for the state of Guerrero the same matters as are addressed for the other Project States pursuant to the plans referred to in Sections 3.10 and 3.12 of this Agreement, and to be presented to the Bank no later than either the Effective Date or the dates specified in Sections 3.10 or 3.12 of this Agreement for each particular type of plan;

(d) contract, not later than June 30, 1991, with a consultant to prepare the SESA Institutional Development Plan, satisfactory to the Bank, addressing for the State of Guerrero the same matters as are addressed for the other Project States pursuant to the plans referred to in Section 3.13 of this Agreement and carry out such SESA Institutional Development Plan once it is prepared; and

(e) participate, through SESA, in the annual reviews referred to in Section 3.16 of this Agreement.

Section 3.08. Upon entering into an agreement similar to the Acuerdo de Coordinacion, pursuant to the Decentralization Action Plan, with a Project State other than the state of Guerrero, the Guarantor shall simultaneously amend the Participation Agreement for that Project State referred to in Section 3.06 of this Agreement so as to add the following provisions:

(a) that the Project State PCU for the Project State in question become part of that Project State's SHA and continue to cooperate with the Federal PCU in coordinating execution of the Project in that Project State;

(b) that the Project State in question adopt as its own and carry out, in conjunction with SSA, the Maintenance Plan, Human Resources Training Plan and Institutional Development Plan already existing with regard to that Project State;

(c) that the Project State in question contribute data required for proper operation of the HMIS and for proper compilation of data regarding the M&E Indicators; and

(d) that the Project State in question participate, through its SHA, in the annual reviews referred to in Section 3.16 of this Agreement.

Section 3.09. Except as the Bank shall otherwise agree, the Guarantor shall not change or fail to enforce any provisions of the Participation Agreements referred to in Sections 3.06, 3.07 and 3.08 of this Agreement, or any provisions of the contract with Hospital Infantil referred to in Section 1.02 (1) of the Loan Agreement.

Section 3.10. No later than July 31, 1991, the Guarantor shall present to the Bank Maintenance Plans, satisfactory to the Bank, for each of the Project States of Chiapas, Hidalgo, Oaxaca or the Distrito Federal for which no Maintenance Plans were presented as of the Effective Date. The Guarantor, through SSA, shall carry out the Maintenance Plans with regard to all those Project States, and assist the state of Guerrero and any Project State which has entered into an amended Participation Agreement referred to in Section 3.08 of this Agreement in carrying out their Maintenance Plans.

Section 3.11. The Guarantor shall carry out the measures referred to in the Staffing Normalization Letter with regard to SSA personnel (including such personnel working in the Territorial Entities of the SSA and in SHAs).

Section 3.12. No later than June 30, 1991, the Guarantor shall present to the Bank Human Resources Training Plans, satisfactory to the Bank, for each of the Project States of Chiapas, Hidalgo, Oaxaca or the Distrito Federal for which no Human Resources Training Plans were presented as of the Effective Date. Such Human Resources Training Plans shall specify actions and recommendations to be implemented through SSA, CONALEP and CECADE, over a five-year term beginning in January 1991 to meet the professional training needs of SSA staff in each of those Project States. The Guarantor shall carry out the Human Resources Training Plans with regard to all those Project States, and assist the state of Guerrero and any Project State which has entered into an amended Participation Agreement referred to in Section 3.08 of this Agreement in carrying out their Human Resources Training Plans.

Section 3.13. The Guarantor shall, no later than June 30, 1991, enter into contracts, satisfactory to the Bank, with consultants for the preparation of Institutional Development Plans, satisfactory to the Bank, for each of the Project States of Chiapas, Hidalgo, Oaxaca and the Distrito Federal. Such Institutional Development Plans shall be presented to the Bank no later than December 31, 1991. Such Institutional Development Plans shall specify actions and recommendations to be implemented to ensure that SSA develop sound administration, planning, budgeting and inventory control procedures in each of those Project States. The Guarantor shall carry out the Institutional Development Plans with regard to all those Project States, and assist the state of Guerrero and any Project State which has entered into an amended Participation Agreement referred to in Section 3.08 of this Agreement in carrying out their Institutional Development Plans.

Section 3.14. The Guarantor, through SSA and in conjunction with SESA, shall review the operation of the HMIS and shall prepare an HMIS Plan for its improvement, satisfactory to the Bank, and deliver such HMIS Plan to the Bank no later than December 31, 1991. The Guarantor shall carry out the HMIS Plan. Throughout Project execution, SSA shall use the HMIS to gather data regarding the M&E Indicators.

Section 3.15. The Guarantor shall carry out the Decentralization Action Plan.

Section 3.16. (a) The Guarantor, through SSA, shall conduct annual reviews, beginning in September 1991 and again during each month of September throughout Project implementation, regarding past and proposed future implementation and budgeting of the Project (including budgeting to cover the obligations referred to in Section 2.02 of this Agreement) and each of the Maintenance Plans, Human Resources Training Plans, Staffing Normalization Letter, Institutional Development Plans, Decentralization Action Plan and HMIS Plan. Such reviews shall be conducted jointly with the Bank, shall include participation by IMSS/Solidaridad administrators, each COPLADE, each SHA, the Borrower, SHCP, SPP, Hospital Infantil and any other research institutions carrying out studies under Part C of the Project, CECADE, and CONALEP and shall analyze, inter alia, the data regarding M&E Indicators collected by SSA through HMIS.

(b) As part of this annual review procedure, by August 30 of each year beginning in 1991, Hospital Infantil and any other research institutions carrying out studies under Part C of the Project, and each Project State PCU shall deliver to the Federal PCU draft annual plans containing targets and a description of activities for Project implementation proposed for the subsequent calendar year. These annual plans, which in the case of the Project State PCUs would include updates regarding performance of the obligations referred to in Section 3.06 (d) of this Agreement, as well as updates regarding each of the Maintenance Plans, Human Resources Training Plans, Staffing Normalization Letter, Institutional Development Plans, Decentralization Action Plan and HMIS Plan, would be studied and finalized during the annual reviews in a manner satisfactory to the Bank. The annual plans submitted by Hospital Infantil and any other research institutions carrying out studies under Part C of the Project, would refer to planned research studies and terms of reference therefor, all of which must be approved by the Bank in order to proceed. By June 30 of each year beginning in 1993, the Federal PCU shall submit to the Bank, in terms acceptable to the Bank, annual reports on Project status, including a comparison of how the M&E Indicators for the immediately preceding calendar year compare to the targets set in the annual plans for such calendar year.

Section 3.17. In addition to the annual reviews referred to in Section 3.16 of this Agreement, the Guarantor, through SSA and with the assistance of consultants, shall complete a mid-term review of the Project no later than three, but no earlier than two and a half, years after the Effective Date. The mid-term review shall analyze whether the Project has been meeting its objectives in a manner

consistent with SSA policy. The mid-term review shall also assess the Project's organization, coordination, monitoring, equity, effectiveness and efficiency. The Federal PCU shall prepare terms of reference, satisfactory to the Bank, for the consultants involved in the mid-term review, and shall present the results of the mid-term review to the Bank immediately upon its completion.

Section 3.18. The Guarantor shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) with regard to all parts of the Project carried out by the Guarantor.

Section 3.19. No civil works for new health centers under Part A.1 of the Project shall be undertaken without taking into account the results of an environmental impact study, satisfactory to the Bank, regarding such works. For civil works under Part A.1 of the Project involving expansion or rehabilitation of already existing hospitals and health centers, it must first be determined by SSA, to the Bank's satisfaction, that increased waste disposal generated by such facilities would not have negative environmental impact. Such environmental impact studies and waste disposal analyses shall be prepared based on environmental assessment guidelines, satisfactory to the Bank, to be prepared by SSA no later than July 31, 1991, and the results of such studies and analyses shall be examined during the course of the annual reviews referred to in Section 3.16 of this Agreement.

Section 3.20. No later than July 30, 1992, the Guarantor, through SSA, shall present to the Bank for comments the results of a review performed by SSA of the efficiency and adequacy of the purchase and distribution of drugs and medical supplies by the SSA and SHAs in the Project States. Such results shall include an action plan, to be carried out by SSA and the SHAs during the course of Project implementation, for the purpose of improving such purchase and distribution practices.

Section 3.21. The Guarantor, through SSA, shall, no later than June 30, 1992, complete the health sector resource allocation and mobilization study included in Part C of the Project, present its results to the Bank and exchange views with the Bank regarding such results. On the basis of the results of the study and such exchange of views, the Guarantor shall, by December 31, 1992, prepare an action plan satisfactory to the Bank. The Guarantor shall implement such action plan in accordance with the implementation schedule included in such action plan.

#### ARTICLE IV

##### Representatives of the Guarantor; Addresses

Section 4.01. The Director General de Captacion de Credito Externo of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

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

For the Guarantor:

Secretaria de Hacienda y Credito Publico  
Direccion General de Captacion de Credito Externo  
Palacio Nacional  
Patio Central, piso 4  
Despacho 4025  
06066 Mexico, D.F.  
Mexico

Fax:

Telex:

522-7550

1777313 SHDCME

For the Bank:

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

Cable address:

Telex:

INTBAFRAD  
Washington, D.C.

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

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

UNITED MEXICAN STATES

By /s/ Oscar Espinosa Villarreal  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Hussain  
Regional Vice President  
Latin America and the Caribbean

