

CONFORMED COPY

LOAN NUMBER 3272 ME

(Basic Health Care Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

NACIONAL FINANCIERA, S.N.C.

Dated April 12, 1991

LOAN NUMBER 3272 ME

LOAN AGREEMENT

AGREEMENT, dated April 12, 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) "Acuerdo de Coordinacion" means the Coordination Agreement for Organic Integration and Operative Decentralization (Acuerdo de Coordinacion para la Integracion Organica y Descentralizacion Operativa) entered into between the Guarantor and the state of Guerrero on June 11, 1985;

(b) "CECADE" means the SSA's Training and Development Center (Centro de Capacitacion y Desarrollo);

(c) "CONALEP" means the Guarantor's Technical Education Institution (Colegio Nacional de Educacion Profesional y Tecnica);

(d) "Contralorias" means the state controllership unit in each of the Project States;

(e) "COPLADE" means the State Committee for Planning and Development (Comite de Planificacion y Desarrollo Estatal) of each of the Project States;

(f) "Decentralization Action Plan" means the plan, contained in the September 21, 1990 letter to the Bank from the Secretario of the SSA, including its attachment entitled Programa de Actividades Tendentes a Lograr la Descentralizacion de los Servicios de Salud a Poblacion Abierta -- Chiapas, Distrito Federal, Hidalgo, Oaxaca (Program of Activities Tending to Accomplish Decentralization of Health Services for the Uninsured Population -- Chiapas, Distrito Federal, Hidalgo, Oaxaca), which describes a series of actions designed to achieve, according to an approximate timetable, the gradual transfer of powers and responsibilities regarding the Guarantor's health care and nutrition sectors from the Guarantor to the governments of the Distrito Federal and the states of Chiapas, Hidalgo and Oaxaca;

(g) "Federal PCU" means the project coordination unit maintained by the Guarantor within SSA pursuant to Section 3.03 of the Guarantee Agreement;

(h) "HMIS" means the Health Management Information System which SSA began implementing in 1986 to standardize and gather health statistics for the purpose of generating information needed to manage activities within the health sector;

(i) "HMIS Plan" means the plan for HMIS improvement referred to in Section 3.14 of the Guarantee Agreement;

(j) "Human Resources Training Plans" means the plans, one for each of the Project States, prepared by SSA and SESA as set forth in Sections 3.07 (c) and 3.12 of the Guarantee Agreement;

(k) "IMSS/Solidaridad" means the health care program for disadvantaged sectors of the population administered by the Mexican Social Security Institute (Instituto Mexicano del Seguro Social), a joint Guarantor/labor/management entity;

(l) "Hospital Infantil" means the Guarantor's Mexican

Children's Hospital "Dr. Federico Gomez" (Hospital Infantil de Mexico "Dr. Federico Gomez"), which, under contract with SSA, shall carry out studies under Part C of the Project;

(m) "Institutional Development Plans" means the plans, one for each of the Project States, prepared by SSA and SESA as set forth in Sections 3.07 (d) and 3.13 of the Guarantee Agreement;

(n) "Maintenance Plans" means the plans, one for each of the Project States, prepared by SSA and SESA with regard to maintenance of health facilities, vehicles and equipment and the training of maintenance personnel for purposes of the Project, as referred to in Sections 3.07 (c) and 3.10 of the Guarantee Agreement;

(o) "M&E Indicators" means the indicators to be used in monitoring and evaluating the Project, provided by SSA to the Bank in a 1990 document entitled Manual para la Evaluacion de los Servicios de Salud, Indicadores de Salud (Manual for the Evaluation of Health Services, Health Indicators);

(p) "Participation Agreements" means the agreements entered into between the Guarantor and the Project States referred to in Sections 3.06, 3.07 and 3.08 of the Guarantee Agreement;

(q) "Solidaridad-SSA" means the Health Care Program for the Uninsured Population (Programa de Apoyo de Servicios de Salud para la Poblacion Abierta), a program developed by SSA, as described in an SSA document entitled Propuesta de Programa de Apoyo de Servicios de Salud para la Poblacion Abierta (Proposed Health Care Program for the Uninsured Population) and dated November 1989, to deliver health services to poor sectors of the population in the territory of the Guarantor that lack health insurance, as such program may be amended from time to time in a manner consistent with the terms of this Agreement and of the Guarantee Agreement;

(r) "Project State PCU" means the project coordination units maintained by the Guarantor within the Territorial Entities of the SSA in the Distrito Federal and the states of Chiapas, Hidalgo and Oaxaca pursuant to Section 3.04 of the Guarantee Agreement, as well as the project coordination unit maintained by the state of Guerrero within SESA pursuant to Section 3.07 (a) of the Guarantee Agreement;

(s) "Project States" means the Distrito Federal and the states of Chiapas, Guerrero, Hidalgo and Oaxaca located within the territory of the Guarantor;

(t) "SECOGEF" means the Guarantor's Controllership Secretariat (Secretaria de la Contraloria General de la Federacion);

(u) "SESA" means the Health Services of the state of Guerrero (Servicios Estatales de Salud);

(v) "SHAs" means State Health Agencies and refers to (i) the agencies in the governments of the Project States which shall become successors to the Territorial Entities of the SSA pursuant to the Decentralization Action Plan and (ii) SESA;

(w) "SHCP" means the Guarantor's Finance Secretariat (Secretaria de Hacienda y Credito Publico);

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

(y) "SPP" means the Guarantor's Programming and Budgeting Secretariat (Secretaria de Programacion y Presupuesto);

(z) "SSA" means the Guarantor's Health Secretariat (Secretaria de Salud) and includes the Territorial Entities of the SSA;

(aa) "Staffing Normalization Letter" means the letter, delivered to the Bank by SSA and dated September 21, 1990, as

referred to in Section 3.11 of the Guarantee Agreement; and

(bb) "Territorial Entities of the SSA" means the SSA's Servicios de Salud Publica in the Distrito Federal and Servicios Coordinados de Salud Publica in each of the states of Chiapas, Hidalgo and Oaxaca.

## 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 one hundred eighty million dollars (\$180,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods 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 June 30, 1996 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) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

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

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

Section 2.06. Interest and other charges shall be payable semiannually on March 1 and September 1 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; 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 Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) shall be carried out: (i) by the Guarantor pursuant to Section 3.18 of the Guarantee Agreement, with regard to parts of the Project carried out by the Guarantor; and (ii) by each of the Project States pursuant to Section 3.06 (c) of the Guarantee Agreement, with regard to parts of the Project carried out by the Project States.

Section 3.03. The Borrower shall participate in the annual reviews referred to in Section 3.16 of the Guarantee Agreement.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain separate records and accounts 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 its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with generally accepted auditing standards and procedures consistently applied, by independent and qualified auditors;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, 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, accounts and financial statements 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, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;
- (ii) retain, 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 event is specified, namely that one of the Project States has failed to perform any of its obligations under any of the Participation Agreements, referred to in Sections 3.06, 3.07 and 3.08 of the Guarantee Agreement, to which it is a party. 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 either by the Project State in question or any municipality or other jurisdiction thereof, or for purposes of benefitting the health care and nutrition sector of that Project State specifically. At the request of the Guarantor, the Bank may reallocate Loan proceeds subject to such suspension to Project States which are in compliance with their Participation

Agreements.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the suspension referred to in Section 5.01 of this Agreement shall have been in effect for all Project States simultaneously for a continuous period of 90 days.

#### 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, through SSA and SPP, and all Project States shall have entered into the Participation Agreements referred to in Sections 3.06 and 3.07 of the Guarantee Agreement;

(b) that the Borrower and the Guarantor shall have entered into the contractual arrangements referred to in Section 3.01 of this Agreement and Section 3.01 of the Guarantee Agreement;

(c) that Maintenance Plans, satisfactory to the Bank, have been presented to the Bank for at least three of the Project States;

(d) that Human Resources Training Plans, satisfactory to the Bank, have been presented to the Bank for at least three of the Project States; and

(e) that draft contracts and a short list of consultants, satisfactory to the Bank, for preparation of Institutional Development Plans, have been presented to the Bank for 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) on behalf of the Guarantor, that the Participation Agreements referred to in Sections 3.06 and 3.07 of the Guarantee Agreement, and the contractual arrangements referred to in Section 3.01 of this Agreement and Section 3.01 of the Guarantee 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) on behalf of each of the Project States, that the Participation Agreements referred to in Sections 3.06 and 3.07 of the Guarantee Agreement have been duly authorized or ratified by, and executed and delivered on behalf of, each of those Project States and are legally binding upon each of those Project States in accordance with their terms;

(c) on behalf of the Guarantor, that, as part of the showing set forth in Section 12.02 (b) of the General Conditions, the Guarantee Agreement is legally binding upon the Territorial Entities of the SSA in accordance with its terms; and

(d) on behalf of the Borrower, that the contractual arrangements referred to in Section 3.01 of this Agreement and Section 3.01 of the Guarantee 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 July 12, 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 in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

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

NACIONAL FINANCIERA, S.N.C.

By /s/ Oscar Espinosa Villarreal  
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) Civil works	32,000,000	75%
(2) Equipment and furniture (excluding vehicles)	46,500,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Ambulances and all-terrain (four wheel drive) vehicles	500,000	100%
(4) Training, technical assistance and studies	14,000,000	100%

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(5) Incremental salaries and incremental operating costs	69,000,000	100% until withdrawals under this Category have reached an aggregate amount equivalent to \$9,000,000; then 90% until withdrawals under this Category have reached an aggregate amount equivalent to \$25,000,000; then 75% until withdrawals under this Category have reached an aggregate amount equivalent to \$43,000,000; then 50% until withdrawals under this Category have reached an aggregate amount equivalent to \$58,000,000; and 25% thereafter
(6) Unallocated	18,000,000	
TOTAL	180,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor;

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor; and

(c) the term "incremental salaries" means salaries of personnel hired under Part A.2 of the Project, and the term "incremental operating costs" means operating costs incurred under Part A.1 of the Project, plus costs incurred for travel and subsistence in connection with training or incurred in the course of Project supervision activities carried out by SSA and SHA staff, if such salaries or operating costs would not have been incurred absent the Project. In the case of personnel in the Federal PCU, the term "incremental salaries" does not include salaries for personnel other than the project director and the four experts referred to in the letter cited in Section 3.03 of the Guarantee Agreement. In the case of personnel in the Project State PCUs, the term "incremental salaries" does not include salaries for personnel other than the project director and the two experts referred to in the letter cited in Sections 3.04 and 3.07 (a) of the Guarantee Agreement.

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 to exceed \$8,000,000, may be made in respect of Categories (1) through (5) on account of payments made for expenditures before that date but after June 15, 1990.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to (a) strengthen and extend basic health care services and targeted nutrition assistance to approximately 13 million poor in the Project States who lack health insurance, (b) support institutional improvements to strengthen the management capability, efficiency and effectiveness of SSA and the SHAs and (c) promote the gradual transfer of powers and responsibilities regarding the Guarantor's health care and nutrition sectors from the Guarantor to the Project States.

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: Provision of Health and Nutrition Services

##### 1. Physical Resources

Improve delivery by SSA and the SHAs of health and nutrition services in the Project States through Solidaridad-SSA by (a) utilizing and constructing, expanding or rehabilitating hospitals, urban and rural health centers, an antirabic center, warehouses and maintenance shops in the Project States, (b) acquiring, installing and utilizing furniture and equipment for such physical facilities, (c) acquiring and utilizing ambulances and vehicles to be used for maintenance, supervision, delivery and administrative purposes in connection with health and nutrition services in the Project States, (d) carrying out maintenance of such physical facilities, vehicles and equipment according to the Maintenance Plans, and (e) acquiring, distributing and utilizing basic drugs and medical and office supplies to support health care delivery in the Project States.

##### 2. Human Resources

Provide for proper staffing of the Federal PCU, Project State PCUs, SSA and the SHAs to deliver health and nutrition services in the Project States through Solidaridad-SSA by (a) hiring, reassigning and regrading doctors, nurses, dentists, technicians, auxiliaries and other health or administrative personnel, (b) designing and implementing effective systems to supervise such personnel, (c) training such personnel and their supervisors according to the Human Resources Training Plans and (d) producing and distributing operational manuals and materials for such personnel.

Part B: Institutional Development

1. Administration

Provide technical assistance to SSA and the SHAs to: (a) facilitate implementation of the Decentralization Action Plan, (b) prepare operational guidelines for the delivery of health and nutrition services, (c) improve their planning methodologies, (d) define the allocation of powers and responsibilities regarding health and nutrition services among regions and municipalities within each of the Project States, (e) develop and apply sound personnel and supervision policies, (f) prepare and carry out the Maintenance Plans, Human Resources Training Plans and Institutional Development Plans, (g) assist in carrying out the mid-term review of the Project, (h) prepare environmental impact and waste disposal studies for civil works to be performed under the Project and (i) design a new prototype for rural, space-efficient hospitals.

2. Budget and Inventory Control

Provide technical assistance and materials and equipment to develop within SSA and the SHAs a computerized budgetary system for financial accounting and control, together with a computerized inventory control system to monitor purchases and distribution of drugs and medical and office supplies.

3. Information System

Provide technical assistance and equipment to SSA and the SHAs to revitalize the HMIS.

4. Accounting and Auditing

Provide: (a) training in accounting, finance, management information systems and in appropriate computer software to those staffers in the SHAs, or in the governments of municipalities or other jurisdictions within the Project States, in charge of record-keeping, treasury, budget handling and general administrative functions; and (b) training in accounting, public sector auditing and related areas to staff in the Contralorias.

Part C: Research

Carry out research studies by SSA through Hospital Infantil, other research institutions and the Project States on topics such as evaluation of innovative health services, demand, supply and quality of health sector human resources, and the epidemiological transition, all as relate to the territory of the Project States. Such studies shall include a study by SSA on health sector resource allocation and mobilization, which study shall present recommendations including (a) criteria to be used for cost recovery mechanisms and for implementation of such criteria and (b) methods for promoting provision of health services by the private sector.

\* \* \*

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 1 and September 1	
beginning March 1, 1996 through September 1, 2007	7,500,000

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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 three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six 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 civil works shall be procured by SSA 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. To the extent practicable, contracts shall be grouped into bid packages estimated to cost the equivalent of \$250,000 or more for goods or \$5,000,000 or more for civil works.

3. All procurement of goods and civil works, whether or not international competitive bidding applies, 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. Civil works estimated to cost the equivalent of less than \$5,000,000 per contract or per bid package, up to an aggregate amount equivalent to \$27,600,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank. Such works shall be procured by the Project States, under supervision by the Federal PCU, and shall not include construction, expansion or rehabilitation of hospitals.

2. (a) Civil works (also excluding construction, expansion or rehabilitation of hospitals) estimated to cost the equivalent of \$50,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$3,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank; and (b) civil works (also excluding construction, expansion or rehabilitation of hospitals) estimated to cost the equivalent of less than \$40,000 per contract or per bid package, up to an additional aggregate amount equivalent to \$3,000,000, may be carried out by force account (in the case of force account works, the Bank shall not finance labor costs). Works covered by this paragraph shall be procured by the Project States under supervision by the Federal PCU.

3. Goods (except vehicles) estimated to cost the equivalent of less than \$250,000 per contract or per bid package, up to an aggregate amount equivalent to \$4,300,000 for drugs and medical supplies and \$8,700,000 for other goods, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank. Goods covered by this paragraph shall be procured by SSA.

4. Goods (except vehicles) estimated to cost the equivalent of \$25,000 or less per contract or per bid package, up to an aggregate amount equivalent to \$1,000,000 for drugs and medical supplies and \$3,000,000 for other goods, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank. Goods covered by this paragraph shall be procured by the Project States under supervision by the Federal PCU.

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) each contract subject to international competitive bidding, (ii) the first contract for civil works subject to local competitive bidding in each of the Project States, and (iii) the first contract for goods subject to local competitive bidding in each of the Project States, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts 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 5 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 SHAs in carrying out the Project, the Guarantor and/or the SHAs 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 Categories (1) through (5) 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 \$10,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective 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.

7. Except as the Bank may otherwise agree, no withdrawals shall be made from the Special Account for expenditures incurred by, or for purposes of benefitting the health and nutrition sectors specifically of, a Project State or any municipality or other jurisdiction therein, once the Bank has issued the notice referred to in Section 5.01 of this Agreement regarding that Project State.

