

**CONFORMED COPY**

**LOAN NUMBER 7061-ME**

# **Loan Agreement**

**(Third Basic Health Care Project)**

**between**

**UNITED MEXICAN STATES**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated March 10, 2002**

**LOAN NUMBER 7061-ME**

**LOAN AGREEMENT**

AGREEMENT, dated March 10, 2002, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and UNITED MEXICAN STATES

(the Borrower).

WHEREAS the Borrower is a signatory of the *Articles of Agreement of the International Bank for Reconstruction and Development* (the international treaty by which the Bank was created), which *Articles of Agreement* contain, *inter alia*, general provisions relating to loans extended by the Bank;

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

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (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 Action Program” means each of the programs prepared by the Borrower and the States in accordance with Section 3.06 (b) (ii) of this Agreement;

(b) “CONASIDA” means the Borrower’s national AIDS control and prevention council;

(c) “Disbursed Amount” means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in said Interest Period;

(d) “Executing Agreement” means any agreement entered into between the Borrower and a State setting forth the annual implementation plan of such State, as governed by Sections 2, 3 and 4 of Schedule 4 to this Agreement;

(e) “Federal Advisory Committee” means the committee referred to in Section 3.07 (b) of this Agreement;

(f) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(g) “Health Jurisdiction” means a regional unit (*Jurisdicción Sanitaria*) of a SESA (as hereinafter defined) responsible for the management, administration and delivery of health programs in a specified geographical region within a State;

(h) “Implementation Letter” means the letter of even date herewith from the Borrower to the Bank, containing, *inter alia*, the monitoring indicators of the Project;

(i) “Maturity Fixing Date” means, for each Disbursed Amount, the date on which the amortization schedule for said Disbursed Amount is established, such date being the first day of the Interest Period next following the Interest Period in which said Disbursed Amount is withdrawn;

(j) “NAFIN” means *Nacional Financiera, S.N.C.*, the financial agent of the Borrower;

(k) “Operational Manual” means the manual referred to in Section 3.09 of this Agreement, as such manual may be amended from time to time with the agreement of the Bank;

(l) “PAC” means *Programa de Ampliación de Cobertura*, a program of the Borrower and the Borrower partly financed by the Bank through the Second Basic Health Care Project (Loan 3943-ME);

(m) “Participatory Framework Agreement” means an agreement entered into between the Borrower and a State setting forth the general terms and conditions for the participation of such State in the Project, as governed by Sections 1 and 4 of Schedule 4 to this Agreement;

(n) “PCU” means the Project Coordination Unit referred to in Section 3.07 (a) of this Agreement;

(o) “Pesticide List and Procedures” means the list of pesticides to be financed by Loan proceeds and the procedures for manufacturing, packaging, labeling, handling, storing, disposal, and application thereof, as established in Section 3.11 of this Agreement;

(p) “SESA” means the *Servicios Estatales de Salud* (the State Health Services);

(q) “SHCP” means the Borrower's Finance and Public Credit Secretariat (*Secretaría de Hacienda y Crédito Público*);

(r) “Special Account” means the account referred to in Section 2.02 of this Agreement;

(s) “SSA” means the Borrower's Health Secretariat (*Secretaría de Salud*);

(t) “State” means any of the thirty one geopolitical subdivisions (*Estado*) of the Borrower and the Federal District (*Distrito Federal*); and

(u) “Subproject” means a package of investments in health infrastructure, institutional development and delivery of essential preventive services, ambulatory and/or basic

hospital services to be carried out under the Project in States.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to three hundred fifty million Dollars (\$350,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (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 and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) The Borrower may, for the purposes of the Project, and through NAFIN, open and maintain in Dollars a separate special deposit account in *Banco de Mexico* 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, 2007 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Bank a front-end fee in an amount equal to three million five hundred thousand Dollars (\$3,500,000). The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

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

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

with the relevant provisions of Article IV of the General Conditions.

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

Section 2.08. (a) Subject to the provisions of paragraph (b) of this Section, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each June 1 and December 1, the first such installment to be payable on the 11 (eleventh) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount and the last such installment to be payable on the 16 (sixteenth) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount. Each installment except for the last one shall be equal to one-sixth (1/6) of said Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of said Disbursed Amount.

(b) Notwithstanding the provisions of paragraph (a) of this Section, if any one or more installments of principal of any Disbursed Amount would, pursuant to the provisions of such paragraph (a), be payable after December 1, 2014, the Borrower shall also pay on such date the aggregate amount of all such installments.

(c) The Bank shall notify the Borrower of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for said Disbursed Amount.

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

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

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

Section 2.10. The *Director de Financiamientos Internacionales* of Nacional Financiera S.N.C. and any person or persons whom he or she shall designate in writing is designated as

representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### **ARTICLE III**

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

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and to this end shall, provide promptly as needed, the funds, facilities, services and other resources required for the Project, and shall, with due diligence and efficiency and in conformity with appropriate environmental, health, financial, technical and administrative standards and practices, as well as in accordance with the Operational Manual and the monitoring indicators set forth in the Implementation Letter:

- (a) cause Part A.1, A.2, A.4, A.5, A.6, A.7, and Part B of the Project to be carried out by the relevant SESAs (with the assistance of SSA) pursuant to the terms of the Participatory Framework Agreement entered into with each of the relevant SESA's State;
- (b) carry out Part A.3 of the Project through SSA with the assistance of CONASIDA and the SESAs;
- (c) carry out Part C of the Project through SSA; and
- (d) have the PCU coordinate the overall execution of the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works, consultants' and other services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower shall, before executing Part A.2 of the Project in any Part A.2 City other than Tijuana (Baja California State), Acapulco (Guerrero State) or Valle del Chalco (Mexico State), assess the implementation of Part A.2 of the Project in said three Part A.2 cities and discuss with the Bank the results of such assessment.

Section 3.04. For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, the Borrower shall:

- (a) prepare or cause to be prepared, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and
- (b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.05. (a) The Borrower shall cause SSA to ensure that Loan proceeds not be expended for purposes of Project implementation with respect to any State unless that State has

entered into, and is complying with, a Participatory Framework Agreement containing the terms set forth in Schedule 4 to this Agreement.

(b) The Borrower shall cause SSA to ensure that Loan proceeds not be expended for purposes of implementation of any particular Subproject unless: (i) the relevant State has entered into, and is in compliance with, an Executing Agreement containing the terms set forth in Schedule 4 to this Agreement; and (ii) such Subproject was approved according to the procedures set forth in Section 1 of Schedule 4 to this Agreement and is included in the relevant action plan prepared pursuant to Section 3.06 (b) (ii) of this Agreement.

(c) The Borrower shall cause SSA to enter into, and comply with the terms of, Participatory Framework Agreements and Executing Agreements. Except as the Bank may otherwise agree, the Borrower shall not amend or fail to enforce any provision of such Participatory Framework Agreements or Executing Agreements. The Borrower shall cause SSA to exercise its rights and carry out its obligations under said Participatory Framework Agreements and Executing Agreements in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

Section 3.06. (a) Throughout the course of Project implementation, and without limitation of the provisions of Section 9.07 of the General Conditions, the Borrower (through SSA) shall furnish to the Bank, by no later than 30 days prior to each annual review referred to in paragraph (b) of this Section, an annual progress report on the implementation of the Project, in form satisfactory to the Bank and based on the Implementation Letter.

(b) The Borrower shall cause SSA and together with NAFIN and the States that are parties to Participatory Framework Agreements, shall hold reviews of Project implementation with the Bank every month of September during Project implementation, beginning in September 2002. Each such annual review shall, based, *inter alia*, on the reports referred to in paragraph (a) of this Section:

- (i) examine the status of Project implementation; and
- (ii) result in the preparation by the Borrower, no later than each immediately subsequent August 31, of an Annual Action Program for the Project, satisfactory to the Bank, to be carried out or caused to be carried out by the Borrower during the fiscal year immediately subsequent to such annual review, each of which action programs may contain, *inter alia*, adjustments to the procurement plan referred to in Section I, Part D.1 of Schedule 3 to this Agreement.

Section 3.07. (a) The Borrower shall maintain or cause to be maintained within SSA and throughout the course of Project implementation, a Project Coordination Unit with staff and functions satisfactory to the Bank, headed by a Director General selected by SSA, as such PCU is described in the Operational Manual.

(b) The Borrower shall cause SSA, throughout the course of Project implementation, to maintain the Federal Advisory Committee in charge of approving the Subprojects as stated in Schedule 4 to this Agreement, with membership and functions satisfactory to the Bank.

Section 3.08. The Borrower shall ensure that no Loan proceeds shall be destined to finance the acquisition of anti-retroviral drugs related to the treatment of HIV/AIDS.

Section 3.09. Without prejudice to the provisions related to Project implementation set forth above including, but not limited to, Section 3.01, the Borrower shall issue and carry out the Project in accordance with an Operational Manual satisfactory to the Bank, which shall include, *inter alia*, special provisions to address the needs of indigenous peoples, management of hospital waste, interventions (not covered by the PAC) included under Part A.1 of the Project and Subproject approval cycle, as the latter is set forth in Schedule 4 to this Agreement.

Section 3.10. Loan proceeds shall not finance any health care services that, absent the Project, are available (whether or not as a package of health services) to beneficiary populations. In no case shall public health care services under the Project substitute for non-governmental services available to said populations, unless such public health care services are offered at more affordable terms.

Section 3.11. The Borrower shall prepare and submit to the Bank a list of pesticides to be financed by Loan proceeds, which shall be manufactured, packaged, labeled, handled, stored, disposed of, and applied according to standards acceptable to the Bank. The Borrower shall not finance with Loan proceeds formulated products that fall in the World Health Organization's *Recommended Classification of Pesticides by Hazard and Guidelines to Classification* (Geneva: WHO 1994-95) Classes IA and IB, or formulations of products in Class II, if the Bank considers that: (a) the Borrower lacks restrictions on their distributions and use; or (b) they are likely to be used by, or be accessible to, lay personnel, farmers or others without training, equipment, and facilities to handle, store, and apply these products properly.

Section 3.12. The Borrower shall – through SHCP – enter into an agreement with NAFIN and SSA, satisfactory to the Bank, for the execution of the Project.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall cause NAFIN to maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause NAFIN to:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section, 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 such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(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 cause SSA to:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (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.

Section 4.02. Without limitation upon the Borrower's progress reporting obligations set out in Section 3.06 of this Agreement, the Borrower shall cause NAFIN to prepare in accordance with terms of reference acceptable to the Bank, and cause NAFIN to furnish to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date and thereafter not later than 45 days after each calendar quarter, a financial monitoring Report for such period, which:

(a) sets forth actual and projected sources and applications of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the projected and actual sources and uses of such funds;

(b) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the previously forecast and

actual implementation targets; and

(c) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

## **ARTICLE V**

### **Effective Date; Termination**

Section 5.01. 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 Operational Manual has been issued by SSA and put into effect;
- (b) that a Participatory Framework Agreement has been entered into between the Borrower and at least three States;
- (c) that the Pesticide List and Procedures has been submitted to the Bank; and
- (d) that the agreement between the Borrower and NAFIN referred to in Section 3.12 of this Agreement shall have been entered into.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that on behalf of the Borrower and each State which entered into a Participatory Framework Agreement in satisfaction of the condition set forth in Section 5.01 (b) of this Agreement, the Participatory Framework Agreement in question has been duly authorized or ratified, and executed and delivered, by the Borrower and the relevant State and is legally binding upon the Borrower and said State in accordance with the terms of such Participatory Framework Agreement.

Section 5.03. The date June 10, 2002, is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VI**

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

Section 6.01. The *Director General de Crédito Público* of the Borrower's Secretariat of Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. 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:

Telex:

INTBAFRAD  
Washington, D.C.

248423 (MCI)  
64145 (MCI)

Facsimile: (202) 477-6391

For the Borrower:

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

Telex:

1777313-SHOCME

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ David de Ferranti

Regional Vice President  
Latin America and the Caribbean

UNITED MEXICAN STATES

By /s/ José Francisco Gil Díaz

Secretary of Finance

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Loan**

A. General

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	9,100,000	70%
(2) Goods (except as covered by Categories (3) or (6) below or provided by	89,070,000	100% of foreign expenditures; 100% of local

	Health Care Providers)		expenditures (ex-factory cost); and 86% of local expenditures for other items procured locally
(3)	Pharmaceuticals and consumable medical supplies (excluding anti-retrovirals) under Part A of the Project (including distribution thereof) except as provided by Health Care Providers	69,400,000	86% until withdrawals under this Category have reached an aggregate amount equivalent to \$29,000,000; 66% until withdrawals under this Category have reached an aggregate amount equivalent to \$55,000,000; and 33% thereafter.
(4)	Training and Consultants' services, including Radio Broadcasting Services	108,620,000	86%
(5)	Health Care Providers	20,000,000	80% until withdrawals under this Category have reached an aggregate amount equivalent to \$18,000,000; and 40% thereafter.
(6)	Incremental Operational Costs	50,310,000	86% until withdrawals under this Category have reached an aggregate amount equivalent to \$28,000,000; 66% until withdrawals under this Category have reached an aggregate amount equivalent to \$44,000,000; and 33% thereafter.
(7)	Fee	3,500,000	Amount due under Section 2.04 of this Agreement
	TOTAL	<u>350,000,000</u>	

2. For the purposes of this Schedule:

(a) “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) “Health Care Providers” means the reasonable fees charged to the Borrower by public and non-governmental health care providers under Part A. 4 of the Project, for the provision of the health services referred to under Part A.1, 2, 3 and 7 of the Project;

(d) “Radio Broadcasting Services” means the cost of media advertising of the information campaign of the Project and transmission rights;

(e) “Incremental Operational Costs” means reasonable costs for salaries, office supplies, operation and maintenance of equipment and vehicles, office and equipment rental, courier services and utilities incurred in Project implementation that would have not been incurred absent the Project; and

(f) “Training” means the reasonable costs related to the carrying out of workshops, seminars and studies including equipment and facility rental, printed materials, travel and per diems (the latter two when not covered under Incremental Operating Costs).

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of twelve million Dollars \$12,000,000, may be made in respect of all the Categories set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after May 1, 2001.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than \$3,000,000 equivalent each; (b) goods under contracts costing less than \$500,000 equivalent each; (c) consulting services provided by firms under contracts costing less than \$100,000 equivalent each; (d) consulting services provided by individuals under contracts costing less than \$50,000 equivalent each; and (e) Incremental Operational Costs; all of these, under such terms and conditions as the Bank shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objectives of the Project are to: (a) increase the provision and quality of health services for the population of the Borrower living in underserved rural and urban areas; (b) increase the access and quality of health services provided to indigenous populations; (c) support the institutional strengthening of the SSA, the SESA, the Health Jurisdictions, municipal and community health entities and local health service providers; and (d) develop innovative

prevention and health care models for the populations mentioned in (a) and (b) above.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree from time to time to achieve such objectives:

Part A: Essential Health Care Services

1. Delivering a package of essential health services (not financed under the PAC) in rural areas of the States (which areas are covered by the PAC) through Subprojects consisting of, *inter alia*, the following 4 interventions (the Proposed Four Interventions): prevention and treatment of sexually transmitted infections, promotion of mental health and prevention of addictions, promotion, prevention and treatment of dental health, and prevention and control of vector transmitted illnesses.
2. Carrying out of Subprojects in marginal urban areas (as listed in the Operational Manual), furnishing on a regular basis basic hospital services and a package of essential health services consisting of the Proposed Four Interventions and the following 13 ones (the Thirteen Interventions): basic household sanitation, home management of diarrhea, periodic anti-parasite treatment, management of acute respiratory infections; hypertension and diabetes case detection and control; prevention and control of tuberculosis; immunizations, child growth and nutrition monitoring; family planning; care of pregnancy; child delivery and post-natal care; health education for accident prevention and initial management of injuries, case detection and control of cancer of cervix and breast; and community involvement in self-care.
3. Carrying out of activities for the prevention of new cases of HIV/AIDS and the diagnosis and treatment of sexually transmitted infections (other than HIV/AIDS) in urban areas as detailed in the Operational Manual.
4. Contracting of public and non-governmental health care providers for the delivery of health services.
5. Development of an inter-institutional emergency medical care network by, *inter alia*: refurbishing emergency units in Project areas; developing an emergency telephone service for the pre-hospital care service and a tracking radio system for connecting the pre-hospital care service with emergency care units in referral hospitals; developing an ambulance network to transport patients; and basic and advanced life support training for paramedics, nurses and medical personnel.
6. Development of a pilot telemedicine program aimed at linking hospitals and regional medical centers with remote area medical centers.
7. Delivering of the Thirteen Interventions and the Proposed Four Interventions referred in Part A.1 and 2 of this Schedule in the rural areas not covered by the PAC.

8. Carrying out a media information campaign for the Project.

Part B: Institutional Development and Decentralization

Provision of support for the consolidation of the Borrower's health decentralized organizational and institutional structure by: (1) strengthening the managerial capacity of the SESAs; (2) supporting the SESAs in delegating managerial functions to the Health Jurisdictions; (3) strengthening the management capacity of the Health Jurisdictions; and (4) improving the management and quality of the inpatient and outpatient services at the primary and secondary levels of the health care delivery system.

Part C: Pilot Models, Policy Studies, Impact Evaluation and Project Management

1. Carrying out studies and assessments and development and testing of models, instruments and indicators to support the Borrower's initiatives to improve the quality of health services.
2. Carrying out: (a) monitoring activities to evaluate: (i) mortality and morbidity changes in indigenous populations; and (ii) the Borrower's indigenous health program; and (b) a pilot test of the micronutrient program for indigenous populations.
3. Design and development of health services prepayment schemes.
4. Carrying out assessments of: (a) diagnostically-related groups payment of providers; (b) alternatives in emergency health services; and (c) changes to the provision of health services for purposes of achieving a more equitable health system.
5. (a) Coordination and supervision of Project implementation; and (b) evaluation of the impact of the Project.

\* \* \*

The Project is expected to be completed by December 31, 2006.

**SCHEDULE 3**

**Procurement**

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in



January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for goods and works shall be grouped in bid packages estimated to cost \$1,000,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) Notification and Advertising

The invitation to bid for each contract shall be advertised in the Borrower's public electronic advertising and bidding system (*COMPRANET*).

The invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in *Development Business* in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$10,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

Works estimated to cost less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$15,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Contracts for goods estimated to cost less than \$100,000 equivalent each, up to an aggregate amount not to exceed \$7,000,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$10,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods and works procured pursuant to Section B above, and each contract for works costing \$3,000,000 or more procured pursuant to Section C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts per State for works to be procured in accordance with the procedures referred to in Section C.3 above, the following procedures shall apply:

- (i) prior to the execution of any contract, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract, the Borrower shall provide to the

Bank a copy of the specifications and the draft contract; and

- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

2. Request for proposals shall follow the standard forms to such effect agreed with the Bank.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least Cost Selection

Services estimated to cost not more than \$100,000 equivalent per contract and up to an aggregate amount of \$5,820,000 may be procured under contracts awarded in accordance with

the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Special advisory services that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount of \$2,000,000, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost less than the equivalent of \$100,000, the terms of reference of the consultants shall be furnished to the Bank for its prior approval. The contract shall be awarded only after said approval shall have been given.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) With respect to each contract for the employment of individual consultants estimated to cost less than the equivalent of \$50,000, the terms of reference of the consultants shall be furnished to the Bank for its prior approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract under paragraph 2 (b) and (d) above and each contract not governed by paragraph 2 above, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Section III      Non-consultant Services

1. Least Cost Selection

Services under Part A. 4 of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

Radio Broadcasting Services under Part A.8 of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

Training services under Parts A and B of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Prior Review

With respect to each contract referred to in Section III, Part 1 above (non-consultant services) estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

**SCHEDULE 4**

**Participatory Framework Agreement and Executing Agreement Terms**

Section 1. A Participatory Framework Agreement with a State shall be satisfactory to the Bank and shall contain terms whereby:

- (a) the State agrees to, *inter alia*:
  - (i) through Health Jurisdictions, hospitals or individuals, annually identify and prepare Subproject proposals (including budgets therefor) and submit such proposals to the relevant SESA, all according to the schedule, procedures and criteria set forth in the Operational Manual;
  - (ii) through the relevant SESA, select from among those Subproject proposals referred to in subparagraph (i) of this paragraph the ones

(together with their budgets) to be presented to the SSA for approval, and thereafter present those selected Subprojects to the SSA, all according to the schedule, procedures and criteria set forth in the Operational Manual;

- (iii) through Health Jurisdictions or hospitals, with due diligence and efficiency and in conformity with appropriate environmental, health, financial, technical and administrative standards and practices, as well as in accordance with the Operational Manual and the Annual Action Program, carry out those Subprojects which the SSA approves from among the selected Subprojects referred to in subparagraph (ii) of this paragraph;
- (iv) through the relevant SESA and Health Jurisdiction carry out medical waste management assessments in each participating hospital and its compliance with NOM-087-ECOL-1993 (as published in the *Diario Oficial de la Federación* on November 7, 1995) and include the investment needs resulting from those assessments in the Annual Action Program for the relevant State;
- (v) through the relevant SESA and Health Jurisdiction, ensure that Section 3.11 of this Agreement is complied with;
- (vi) evaluate (according to the performance indicators contained in the Operational Manual), monitor and supervise Subproject performance, participate in the annual reviews referred to in Section 3.06 (b) of this Agreement and cooperate in the preparation of the annual progress reports and action plans also referred to in said Section;
- (vii) procure the goods, works and consultants' services required for Subprojects and to be financed out of the proceeds of the Loan according to the provisions of Schedule 3 to this Agreement;
- (viii) 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 (related respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) with regard to Subprojects;
- (ix) maintain records and separate accounts and carry out audits (or allow such audits to be carried out) so as to permit the Borrower to comply in a timely manner with all their obligations set forth in Section 4.01 of this Agreement;
- (x) document all Subproject expenditures properly so as to allow the Borrower to justify, in a manner satisfactory to the Bank, all Loan proceed disbursements made from the Loan Account and the Special Account in connection with Subprojects;
- (xi) provide, in a timely manner each year as needed, the internally generated State counterpart budgetary resources required to cover at least 10% of the cost of carrying out the Subprojects approved pursuant to Section 1

(b) of this Schedule (which counterpart resources shall not be used to cover non-incremental salary costs);

- (xii) assist the Borrower in carrying out Parts A.3, B and C of the Project; and
- (xiii) assist the Borrower in evaluating, monitoring and supervising execution of Parts A.3, B and C of the Project with respect to the State and cooperate with the Borrower in the preparation of the annual progress reports and action programs referred to in Section 3.06 of this Agreement to the extent such reports and programs relate to such execution; and

(b) the Borrower, through SSA, agrees to, *inter alia*:

- (i) through the Federal Advisory Committee, annually approve Subprojects (and budgets therefor), according to the schedule, procedures and criteria set forth in the Operational Manual, from among those approved pursuant to paragraph (a) (iii) of this Section (the group of such annually approved Subprojects per State for any given year, plus the technical assistance to be provided for such State for such year, shall constitute the annual investment plan for such State for such year); and
- (ii) provide, in a timely manner each year as needed and as set forth in the Operational Manual, the Loan proceeds and federal counterpart budgetary resources required to cover at most 90% of the cost of carrying out the Subprojects approved pursuant to subparagraph (i) of this paragraph.

Section 2. Executing Agreements shall contain terms reflecting the provisions referred to in Section 1 (a) (iii), (iv) to (xiii), and Section 1 (b) (ii) above, as applicable.

Section 3. Subject to approval in writing by the Bank, other entities such as other State or municipal agencies, or non-governmental organizations, may be parties to the Executing Agreements.

Section 4. Participatory Framework Agreements shall be signed on behalf of a State by its Governor. Executing Agreements shall be signed on behalf of a State by an official legally authorized to do so.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:

- (a) the term “eligible Categories” means Categories (1), (2), (3), (4), (5), (6) and (7) 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 the amount of \$30,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$10,000,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of \$20,000,000.

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 deposit into the Special Account of an amount or amounts 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 into 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;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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.

