

**CONFORMED COPY**

**LOAN NUMBER 7188-ME**

# **Loan Agreement**

**(E-Business for Small Business Development Project)**

**between**

**UNITED MEXICAN STATES**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated September 23, 2003**

# LOAN NUMBER 7188-ME

## LOAN AGREEMENT

AGREEMENT, dated September 23, 2003, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the UNITED MEXICAN STATES (the Borrower), represented by its signatory on page 17 of this Agreement.

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

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan 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, 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) “Coordinator” means the Borrower’s *Coordinador del Sistema Nacional E-México*, as referred to in Article 2 of the Borrower’s decree amending the internal regulations of the Secretariat (*Decreto por el que se reforma el Reglamento Interior de la Secretaría de Comunicaciones y Transportes*) published in the Borrower’s Official Gazette (*Diario Oficial de la Federación*) dated December 7, 2001;

(b) “E-business” means a business which: (i) possesses substantial investment in information and communication technologies (including, at least, hardware, software, and an internet connection); and (ii) applies said information and

communication technologies to individual market processes (including, market research, production, finance, management and purchase and sale of goods and services);

(c) “E-business Competitiveness Plan” means any of the plans referred to in Part B.2 (a) of the Project;

(d) “Eligible Association” means an association of small or micro businesses complying with the criteria set forth in the Operational Manual (as hereinafter defined) in order to benefit from Part B of the Project;

(e) “Eligible Local Government” means a State (as hereinafter defined) or a Municipality (as hereinafter defined) in the territory of the Borrower which meets the eligibility criteria set forth in the Operational Manual to participate under Part E of the Project;

(f) “Eligible MSB” means: (i) an enterprise comprising of up to 100 employees, engaged in the manufacture, commerce, or provision of, goods, works or services, incorporated and operating in the territory of the Borrower, and complying with the criteria set forth in the Operational Manual in order to benefit from, and participate in, Part B of the Project; (ii) Eligible Association;

(g) “Eligible MSB Grant” means any of the grants made or proposed to be made out of the proceeds of the Loan, to an Eligible MSB or an Eligible Association under Part B.3 of the Project;

(h) “Eligible MSB Grant Agreement” means any of the grant agreements referred to in Section 3.05 (a) (i) of this Agreement;

(i) “Eligible Youth” means any low-income urban youth between the ages of 16 and 25 considered at-risk and who meets the eligibility criteria set forth in the Operational Manual to participate under Part D of the Project;

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

(k) “Implementation Letter” means the letter of even date herewith, from the Borrower, through the Coordinator, to the Bank containing: (i) indicators to be used in monitoring and evaluating the implementation of the Project; and (ii) technical and financial requirements to be used in the selection of States and Municipalities for them to participate in the Project;

(l) “Local Government Agreement” means any of the agreements referred to in Section 3.05 (a) (iii) of this Agreement;

(m) “Management Agreement” means the agreement referred to in Section 3.05 (a) (i) of this Agreement;

(n) “Management Entity” means the entity referred to in Section 3.05 (a) (i) of this Agreement;

(o) “Monitoring Indicators” means the indicators set forth in the Implementation Letter of even date with this Agreement between the Borrower and the Bank;

(p) “MSB” means enterprise comprising of up to 100 employees, engaged in the manufacture, commerce, or provision of, goods, works or services, incorporated and operating in the territory of the Borrower;

(q) “Municipality” means a political subdivision (*municipio*) of a State;

(r) “NAFIN” means Nacional Financiera, S.N.C., a development bank incorporated in the territory of the Borrower serving as the Borrower’s financial agent for purposes of the Loan;

(s) “NAFIN Administrative Agreement” means the agreement referred to in Section 3.05 (a) (iv) of this Agreement;

(t) “NAFIN Agreement” means the agreement referred to in Section 3.05 (b) of this Agreement;

(u) “NGO” means non-governmental organization;

(v) “NGO Agreement” means any of the agreements referred to in Section 3.05 (a) (ii) of this Agreement;

(w) “Operational Manual” means the manual referred to in Section 3.04 (b) of this Agreement;

(x) “PCU” means the Project coordination unit referred to in Section 3.03 (a) of this Agreement;

(y) “Secretariat” means *Secretaría de Comunicaciones y Transportes*, the Borrower’s Secretariat of Communications and Transport;

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

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

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

(cc) “Technical Committee” means the *comité técnico* of the Trust, as referred to in section six of the Trust Agreement;

(dd) “Trust” means the trust (*fideicomiso*) created by virtue of the Trust Agreement;

(ee) “Trust Agreement” means the *contrato de fideicomiso* entered into on July 22, 2002 between the SHCP as trustor (*fideicomitente*) and *Banco Nacional de Obras y Servicios Públicos, S.N.C.* as trustee (*fiduciario*); and

(ff) “Voucher” means a grant made or proposed to be made by the Borrower to an Eligible MSB in the form of a promissory note in favor of a third party service provider for purposes of financing up to 80% of the cost of the services provided by said provider under Part B.4 of the Project.

## 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 fifty-eight million four hundred thousand Dollars (\$58,400,000), 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: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable

cost of goods, consultants' services and Incremental Operating Costs required for the Project and to be financed out of the proceeds of the Loan; (ii) amounts disbursed (or if the Bank shall so agree, to be disbursed) by the Management Entity as Eligible MSB Grants or Vouchers; (iii) the front-end fee referred to in Section 2.04 of this Agreement; and (iv) 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, cause NAFIN to open and maintain in Dollars a special deposit account on the Borrower's behalf either: (i) in the Borrower's Central Bank on terms and conditions satisfactory to the Bank; (ii) in NAFIN on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment; or (iii) in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. 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, 2008 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one per cent (1%) of the amount of the Loan. 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 said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one percent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 (b) of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one percent (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, at a rate for each Interest Period equal to 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 15, and December 15, in each year.

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

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

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

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

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

Section 2.10. The *Director de Financiamientos Internacionales* of NAFIN 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, through the Secretariat and the Borrower's representatives in the Technical Committee, shall carry out the Project, with due diligence and efficiency and in conformity with appropriate administrative, financial, information communications technology, participatory, environmental and social standards and practices, as well as in accordance with the Operational Manual and the monitoring indicators set forth in the Implementation Letter.

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

Section 3.03. (a) The Borrower, through the Coordinator and with the assistance of NAFIN pursuant to the NAFIN Administrative Agreement, shall establish and maintain, throughout Project implementation, a project coordinating unit, assigned with staff in adequate numbers and with qualifications, experience, functions and responsibilities satisfactory to the Bank, including, *inter alia*, the following functions: (i) monitoring the implementation of the Project and ensuring effective coordination among staff and institutions responsible for the implementation of the Project; (ii) preparing and submitting to the Bank the reports referred to in Section 3.06 (b) of this Agreement; (iii) reviewing, jointly with the Borrower and the Bank, the progress achieved by the Borrower in the implementation of the Project on the basis of the annual reports referred to in Section 3.06 (b) of this Agreement, and carrying out the actions required for the subsequent implementation of the Project; and (iv) identifying and informing the Bank of any possible obstacle or difficulty affecting or threatening to affect Project implementation.

(b) Without limitation or restriction upon Section 3.01 above, the Borrower, through the Secretariat, shall provide, promptly as needed, the funds, facilities, services, staff and other resources required for the discharge of the functions of the PCU.

Section 3.04. Except as the Borrower, through the Coordinator, and the Bank shall otherwise agree, the Borrower shall carry out, and shall cause the Management Entity, Eligible Local Governments and NGOs to carry out their respective activities under the Project, in accordance with the terms of:

- (a) the Implementation Letter; and



(b) a manual, satisfactory to the Bank (the Operational Manual), containing detailed procedures for the carrying out of the Project, including, *inter alia*:

- (i) criteria to determine the eligibility of MSB, associations, youth and States and Municipalities for the purposes of receiving financing or technical assistance under the Project;
- (ii) criteria to determine the eligibility of NGOs to participate under Part D of the Project (including, legal personality, legal and technical capacity and resources required to carry out the activities set forth under Part D of the Project);
- (iii) terms, conditions and standard contractual documentation for the provision of Eligible MSB Grants and Vouchers financed under the Project, including the provisions set forth in Schedule 6 to this Agreement;
- (iv) terms, conditions and standard contractual documentation for NGO Agreements and Local Government Agreements (including the obligation of Eligible Local Governments to finance at least 25% of the activities to be carried out in their respective jurisdiction under Part E of the Project);
- (v) terms, conditions and procedures for the review, assessment and approval of E-business Competitiveness Plans financed under the Project;
- (vi) detailed terms and procedures for the establishment and implementation of accounting, auditing and financial management systems for the Project;
- (vii) procedures and requirements for the procurement of goods and consultants' services financed under the Project;
- (viii) terms, requirements and indicators for the implementation, monitoring and supervision of the Project (including for the monitoring of the performance of the Management Entity, NGOs, Eligible Local Governments, Eligible MSBs and Eligible Youth); and

- (ix) minimum operational standards of the facilities referred to in Part B.5 of the Project.

Except as the Bank shall otherwise agree, the Borrower shall not amend, waive or fail to enforce the Operational Manual, or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.

Section 3.05. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall, through the Coordinator:

- (i) enter into an agreement (the Management Agreement) with an entity (the Management Entity) with qualifications and experience acceptable to the Bank and on terms and conditions satisfactory to the Bank, whereby the Management Entity shall agree to assist the Borrower with the implementation and supervision of Part B of the Project following instructions of the PCU, and under which the Management Entity shall, *inter alia*, agree to enter into grant agreements with Eligible MSBs and Eligible Associations (the Eligible MSB Grant Agreements) for the carrying out of Part B.3 of the Project, and distribute Vouchers to Eligible MSBs for the carrying out of Part B.4 of the Project, all of the above to be carried out in accordance with the terms and conditions of the Implementation Letter, the Operational Manual and this Agreement;
- (ii) enter into agreements with NGOs (the NGO Agreements) with qualifications and experience acceptable to the Bank and on terms and conditions satisfactory to the Bank, whereby the relevant NGO shall agree to assist the Borrower with the implementation and supervision of Part D of the Project, all of the above to be carried out in accordance with the terms and conditions of the Implementation Letter, the Operational Manual and this Agreement;
- (iii) enter into agreements with Eligible Local Governments (the Local Government Agreements) on terms and conditions satisfactory to the Bank, whereby the relevant Eligible Local Government shall agree to participate in Part E of the Project in accordance with the terms and conditions of the Implementation Letter, the Operational Manual and this Agreement; and

- (iv) enter into an administrative agreement with NAFIN (the NAFIN Administrative Agreement) on terms and conditions satisfactory to the Bank, whereby NAFIN shall agree to: (i) assist the Borrower in the execution of the Project (including the carrying out of procurement and reporting responsibilities) following instructions of the Coordinator; and (ii) allocate adequate staff and resources for said purpose.

(b) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall enter into an agreement (*Contrato de Mandato*) with NAFIN (the NAFIN Agreement) on terms and conditions satisfactory to the Bank, whereby NAFIN shall agree to represent the Borrower vis-à-vis the Bank for purposes of submitting Loan withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Borrower of Loan proceeds, agrees to maintain and operate the Special Account in compliance with the terms of this Agreement, agrees to ensure that the obligations set forth in Article IV of this Agreement are complied with as pertain to the Special Account and agrees to participate in the periodic reviews referred to in Section 3.06 (c) of this Agreement.

(c) The Borrower, through SHCP or the Secretariat, as it may correspond, shall ensure that the Management Agreement, each NGO Agreement, each Local Government Agreement, the NAFIN Administrative Agreement and the NAFIN Agreement be duly authorized or ratified by, and executed and delivered by, the Management Entity, the corresponding NGO, the corresponding Eligible Local Government and NAFIN, respectively, and that each of said agreements be legally binding upon the Management Entity, the corresponding NGO, the corresponding Eligible Local Government and NAFIN, respectively, in accordance with the relevant Management Agreement's, NGO Agreement's, Local Government Agreement's, the NAFIN Administrative Agreement's and the NAFIN Agreement's terms.

(d) The Borrower, through SHCP or the Secretariat, as it may correspond, shall exercise its rights and comply with its obligations under the Management Agreement, each NGO Agreement, each Local Government Agreement, the NAFIN Administrative Agreement and the NAFIN Agreement in such a manner as to protect the interests of the Borrower and of the Bank, and to accomplish the purposes of the Project, and except as the Bank shall otherwise agree, the Borrower shall not amend, waive or fail to enforce any of such agreements or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Management Agreement, or any NGO Agreement, or any Local Government Agreement, the NAFIN Administrative Agreement or the NAFIN Agreement, the terms of this Agreement shall prevail. The Borrower shall promptly inform the Bank of any condition which interferes or threatens to interfere with the performance of the Borrower, the Management Entity, the relevant NGO, the Eligible Local Government or NAFIN of their respective obligations under such agreements.

Section 3.06. Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower, through the PCU, shall during the execution of the Project:

(a) maintain, or cause to be maintained, policies and procedures adequate to enable the PCU to monitor and evaluate on an ongoing basis (in accordance with the Monitoring Indicators) the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare and furnish to the Bank, by not later than March 31, in each year of Project implementation, reports, in a format satisfactory to the Bank, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, which reports shall include, *inter alia*: (i) a detailed description of the Project activities completed during the twelve months preceding the date of the report; (ii) an annual plan, including a budget and a financial plan (detailing all contributions from public and private sources) for the activities proposed for implementation during the next calendar year; (iii) an annual plan and implementation timetable for the carrying out of the training programs financed under the Project; and (iv) a progress report, including lessons learned during Project implementation;

(c) by not later than April 30, in each year of Project implementation (the review to take place in June of 2006 to be the mid-term review), carry out, jointly with the Borrower and the Bank a review of the progress achieved in the carrying out of the Project and the attainment of the objectives thereof during the period preceding such date, on the basis of the reports referred to in paragraph (b) of this Section, which review shall cover, *inter alia*: (i) the number of, and amount of monies disbursed under each Eligible MSB Grant or Voucher financed under the Project during the period preceding the date of said report; (ii) any necessary adjustments to the activities financed under the Project, to be considered by the Borrower and the Bank, in light of Project implementation experience up to the time of the review; (iii) an assessment of the performance of the Management Entity, NGOs, Eligible Local Governments, Eligible MSB and Eligible Youth regarding their respective activities under the Project; and (iv) the measures recommended to ensure the efficient carrying out of the Project; and

(d) take or cause to be taken all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reviews, and the views on the matter provided by the Bank.

Section 3.07. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through the Coordinator, shall:

(a) prepare, 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.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall maintain through the Secretariat, and also cause NAFIN to maintain, a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, adequate to reflect operations resources and expenditures related to the Project

(b) The Borrower shall through the Secretariat, and also 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 of the Borrower's fiscal year audited, in accordance with auditing standards acceptable to the Bank 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 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 such 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, through the Secretariat, and shall cause NAFIN 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. (a) Without limitation upon the provisions of the Borrower's progress reporting obligations set out in Section 3.06 of this Agreement, the Borrower shall through the Secretariat, and also cause NAFIN to, prepare and furnish to the Bank a Financial Monitoring Report (FMR), in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses 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 actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementations; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

calendar semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

## **ARTICLE V**

### **Remedies of the Bank**

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

(a) NAFIN shall have failed to perform any of its obligations under the NAFIN Agreement or the NAFIN Administrative Agreement or a situation shall have arisen so as to materially and adversely affect, in the opinion of the Bank, the ability of NAFIN to carry out its obligations under the NAFIN Agreement or the NAFIN Administrative Agreement;

(b) the Management Entity shall have failed to perform any of its obligations under the Management Agreement;

(c) a situation shall have arisen so as to materially and adversely affect, in the opinion of the Bank, the ability of the Management Entity to carry out its obligations under the Management Agreement; and

(d) the Trust shall have ceased to exist or the Trust Agreement shall have been amended or have not been enforced in a manner so as to adversely affect, in the opinion of the Bank, the execution of the Project.

## 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) the NAFIN Agreement and the NAFIN Administrative Agreement have been entered into;

(b) the PCU has been established and is operational;

(c) the Operational Manual has been submitted to the Bank;

(d) an administrative, financial and accounting system for the Project satisfactory to the Bank has been set up and is fully operational;

(e) NAFIN has furnished to the Bank a legal opinion satisfactory to the Bank, of counsel acceptable to the Bank, showing that, on behalf of NAFIN, the NAFIN Agreement and the NAFIN Administrative Agreement have been duly authorized or ratified by, and executed and delivered on behalf of, NAFIN and are legally binding upon NAFIN in accordance with their terms, respectively; and

(f) the Secretariat has furnished to the Bank a legal opinion satisfactory to the Bank, of counsel acceptable to the Bank, showing that, on behalf of the Secretariat, the NAFIN Administrative Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Secretariat and is legally binding upon the Secretariat in accordance with its terms.

Section 6.02. 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 the NAFIN Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, and is legally binding upon the Borrower in accordance with its terms.

Section 6.03. The date December 22, 2003 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 *Titular de la Unidad 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 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:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI); or 64145 (MCI)	(202) 477-6391

For the Borrower:

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

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 Dubai, United Arab Emirates as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ James D. Wolfensohn

Authorized Representative

UNITED MEXICAN STATES

By /s/José Francisco Gil Díaz

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:

	<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1)	Goods (except as covered under Category (2) below)	6,400,000	83%
(2)	Goods under Part C.2 of the Project	2,100,000	83%
(3)	Consultants' Services and Training (except as covered under Categories (4) and (5) below)	26,616,000	83% of local expenditures and 100% of foreign expenditures
(4)	Consultants' Services and Training under Part C.2 of the Project	2,500,000	83% of local expenditures and 100% of foreign expenditures
(5)	Consultants' Services financed by:		
	(a) Eligible MSB Grants	16,100,000	100% of amount disbursed under the relevant Eligible MSB Grant Agreement
	(b) Vouchers	3,900,000	100% of amount disbursed as Vouchers

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(6) Incremental Operating Costs	200,000	83% of local expenditures and 100% of foreign expenditures
(7) Fee	584,000	Amount due under Section 2.04 of this Agreement
(8) Premia for Interest Rate Caps and Interest Rate Collars	- 0 -	Amount due under Section 2.09 (c) of this Agreement
TOTAL	<u>58,400,000</u>	

2. For the purposes of this Schedule:

(a) the term “training” means the reasonable costs related to the provision of training not financed as Consultants’ Services, such as domestic and foreign travel, room, board and *per diem* and other administrative expenses incurred by trainees and trainers in connection with their training and capacity building activities, carrying out of workshops and dissemination activities, and training facility and equipment rentals, preparation, production and publication of instructional materials, including audiovisual materials; and

(b) the term “incremental operating costs” means reasonable expenditures incurred in connection with the operation of the PCU for office rental, office utilities, communications, supplies, travel, room and *per diem*, which would have not been incurred absent the Project.

3. Notwithstanding the provisions of paragraph 1 of this Schedule, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,600,000 may be made in respect of Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures up to one year before that date but after May 15,2003;

(b) in respect of payments made for expenditures under Categories (2) and (4) set forth in the table in paragraph 1 of this Schedule, unless the Bank has been furnished with documentary evidence, satisfactory to it, confirming that: the business plan and implementation manual under Part C.1 of the Project have been developed in a manner satisfactory to the Bank; and

(c) in respect of payments made for expenditures under Category (5) set forth in the table in paragraph 1 of this Schedule, unless the Bank has received evidence satisfactory to the Bank that: (i) the Management Agreement has been entered into; and (ii) the Management Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Management Entity and the Borrower, respectively, and is legally binding upon the Management Entity and upon the Borrower, respectively, in accordance with the Management Agreement's terms.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for the purchase of goods costing less than \$500,000 equivalent (except for the first two such contracts procured under Part C.1 of Section I of Schedule 4 to this Agreement); (b) training; (c) consulting firms' contracts costing less than \$100,000 equivalent; (d) individual consultants' contracts costing less than \$50,000 equivalent; (e) expenditures financed by Eligible MSB Grants and Vouchers; and (f) Incremental Operating Costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to strengthen the Borrower's capability to support the increased competitiveness and growth of MSB in poor urban areas within the territory of the Borrower through the adoption of E-business strategies.

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: E-Business Awareness

Carrying out of workshops, promotion campaigns and similar activities to promote awareness among MSB, public officials and general public of the benefits of E-business.

#### Part B: E-business Learning and Innovation Program for MSB

1. Contracting of information and communication technology service providers to develop new lines of services to enable Eligible MSBs to participate in Parts B.3 and B.4 of the Project.
2. Provision of technical assistance to Eligible MSBs to help them: (a) develop and implement an E-business competitiveness plan; (b) select information and communication technology service providers; and (c) apply for Eligible MSB Grants and Vouchers under Part B.3 and Part B.4 of the Project.
3. (a) Carrying out of a program to provide grants to Eligible MSBs and Eligible Associations for said Eligible MSBs and Eligible Associations to incorporate or strengthen E-business strategies and devices into their business cycle and improve their competitiveness.  
  
(b) Setting up of a web page to publish all information related to the Eligible MSB Grants program, including daily updates on approved and rejected grant proposals.
4. Carrying out of a Vouchers program for the provision of electronic business development services (consisting of the incorporation of electronic technology and strategies in, *inter alia*, business planning, product and process development, management and technical training, marketing and sales, management of human resources, finance and firm administration) to Eligible MSBs.

5. Establishment of facilities to implement the Vouchers and Eligible MSB Grants programs, including, *inter alia*, the dissemination of information related to the Vouchers and Eligible MSB Grants programs (including the listing of the eligible providers of electronic business development services), the screening of Eligible MSB to verify compliance with eligibility criteria and with other terms and conditions of the Vouchers and Eligible MSB Grants programs, the distribution of Vouchers and the monitoring of the implementation of the Vouchers and Eligible MSB Grants programs.

Part C: Business Centers Innovation Pilot

1. Development of a business plan (including the participation of the private sector in the financing of the community-based business centers to be set up under Part C.2) and implementation manual for Parts C.2 of the Project.

2. Setting up and operation of approximately 30 community-based business centers and a supporting hub to provide, *inter alia*, the following services to MSB: (a) training in information technology and business management skills; (b) access to telephone, facsimile, photocopy machines, scanning machines, e-mail, internet, mail, shipping services, personal computers, word processing and printing services; (c) training and materials to increase market penetration through advertising, labeling and packaging; (d) access to productivity workstations with software wizards for simplified business planning, problem-solving in production, finances and credit and marketing for business expansion; (e) access to, and training in, business networking to, *inter alia*, locate suppliers, price trends and different sources of business information and advice and obtain group discounts when purchasing raw materials; and (f) access to, and training in, electronic commerce (including, *inter alia*, exchanging information with suppliers, customers, creditors and competitors and development of web pages).

Part D: Youth Pilot

Carrying out of a program, with the assistance of NGOs, to increase employment opportunities for at-risk youth between the ages of 16 and 25 years old, which shall consist of the following activities: (a) training in, *inter alia*, personal skills, personal financial and time management, job social and business skills, micro business, entrepreneurial skills and job application and interviewing; (b) mentoring and counseling; (c) vocational orientation; (d) remedial literacy and numeracy training; and (e) job placement.

Part E: Investment and Operating Environment for MSB

Strengthening of the technical and regulatory capacity of Eligible Local Governments to develop information and communications technology-based systems to improve the investment and operating environment for the establishment and operation of MSB, including, *inter alia*, the carrying out of the following activities:

(a) review and update of the processes required by Eligible Local Governments for the registration, licensing and issuance of operating permits for MSB;

(b) development of information technology-based alternatives, including the setting up of information portals and kiosks to facilitate registration and operation of MSB in Eligible Local Governments (including, *inter alia*, the setting up and operation of electronic procurement/bidding procedures); and

(c) training MSB entrepreneurs and officials of Eligible Local Governments in information and communications technology.

Part F: MSB Access to Communications Infrastructure

1. Carrying out of an assessment of MSB needs, demand and barriers regarding MSB access to information and communication technology networks (including dial-up and higher-speed networks).

2. Designing of a concrete strategy, incentives and the pilot activities to be carried out under Part F.3 below to foster increased provision by the private sector of information and communication technology infrastructure for MSBs in all the States of the Borrower, and carrying out of activities to increase MSB access, in a commercially sustainable manner, to information and communication technology networks in the Borrower's lowest income States.

3. Carrying out of activities to foster innovation, competitiveness and efficient use of information and communication technologies, including pilot activities to implement the strategy (including incentives) developed under Part F.2 above, including activities to be carried out in the Borrower's lowest income States.

Part G: Institutional Strengthening and Project Management

Carrying out of the management, coordination and supervision of the Project (including the carrying out of financial audits and the design and implementation of a data collection system to assess the performance of MSB, Eligible Local Governments and Eligible Youth receiving assistance and financial support under the Project).

\* \* \*

The Project is expected to be completed by December 31, 2007.



### SCHEDULE 3

#### Amortization Schedule

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

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
On each December 15 and June 15	
Beginning on December 15, 2008 through June 15, 2018	5%

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

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

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

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

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

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

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

## **SCHEDULE 4**

### **Procurement**

#### Section I Procurement of Goods

##### Part A: General

Goods 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 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 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 shall be grouped in bid packages to cost \$500,000 equivalent or more each.

(b) Notification and Advertising

The invitation to bid for each contract shall be advertised in the Borrower’s public electronic advertising and bidding system (*COMPRANET*). In addition, invitations to bid for each contract for goods estimated to cost \$10,000,000 equivalent or more shall be advertised 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 \$6,900,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, using standard bidding documents, acceptable to the Bank.

2. International or National Shopping

Goods estimated to cost \$100,000 equivalent or less per contract, up to an aggregate amount not to exceed \$2,500,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Commercial Practices

Goods required for Part B.3 (a) of the Project may be procured in accordance with commercial practices acceptable to the Bank pursuant to the provisions of paragraph 3.12 of the Guidelines.

Part D: Review by the Bank of Procurement Procedures

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 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

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to: (a) each contract for goods to be procured under Part B of this Section; and (b) the first two contracts for goods to be procured under Part C.1 of this Section.

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

Consultants' services shall be procured in accordance with the provisions of Sections I and 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and the following provisions of this Section.

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, 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 for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services of a standard or routine nature, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Commercial Practices

Services under Part D of the Project costing less than \$15,000 equivalent per contract and up to an aggregate amount of \$1,700,000 may be procured in accordance with commercial practices acceptable to the Bank.

3. Commercial Practices under Part B.3 (a) of the Project

Services under Part B.3 (a) of the Project costing less than \$30,000 equivalent per contract and up to an aggregate amount of \$38,900,000 equivalent may be procured in accordance with commercial practices acceptable to the Bank.

4. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines up to an aggregate amount of \$7,400,000 equivalent shall be procured under contracts awarded 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

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank, for its review and approval, prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 6 months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to: (i) each contract for the employment of consulting firms; and (ii) each agreement with NGOs under Part D of the Project, estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to: (i) each contract for the employment of consulting firms; and (ii) each agreement with NGOs under Part D of the Project, estimated to cost less than the equivalent of \$100,000, the procedures set forth in paragraph 2 (a) of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience and the 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. The provisions of paragraph 3 of Appendix 1 to the Guidelines shall also apply to such contracts.

(d) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$20,000 or more, the 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. The provisions of paragraph 3 of Appendix 1 to the Guidelines shall also apply to such contracts.

### 3. Post Review

With respect to contracts covered under Part D.2 (b) and (d) above, and all contracts not covered under Part D.2 above, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2), (3), (4), (5) and (6) 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 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 \$4,000,000 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 \$2,000,000 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 \$8,000,000.
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 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 through the PCU 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 which is not an 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 determines at any time that any amount outstanding in the Special Account will not be required to cover 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 subparagraphs (a), (b) and (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement, including the General Conditions.

## SCHEDULE 6

### Provisions of the Operational Manual

The Operational Manual shall contain provisions including, *inter alia*, the following:

#### Part A: Terms and Stipulations of Eligible MSB Grant Agreements

(a) Before entering into a Eligible MSB Grant Agreement, the relevant Eligible MSB shall provide, *inter alia*:

- (i) evidence of compliance by the relevant small business or association with the eligibility criteria (including, legal personality, legal and technical capacity and resources –besides those to be provided by the Management Entity with proceeds of the Loan- required to carry out the activities under the relevant Eligible MSB Grant Agreement), set forth in the Operational Manual to apply for, and receive from the Borrower, an Eligible MSB Grant taking into account the proposed start-up activities detailed in the competitiveness plan submitted by the Eligible MSB or Eligible Association; and
- (ii) a clear, well defined and time-bound E-business competitiveness plan, including the activities to be financed under the Eligible MSB Grant, which shall be designed to incorporate or strengthen E-business strategies and devices into the relevant Eligible MSB' or Eligible Associations' business cycle and improve their competitiveness and, therefore, shall be made solely to finance a legally permissible and productive purpose (without harmful environmental impact) and not to finance mere consumption, refinancing of existing debt or transfers of ownership (consequently, the Eligible MSB Grant could not be used to finance, for example, the purchase of land, food, securities or existing real estate);

(b) Each Eligible MSB Grant Agreement shall include, *inter alia*, provisions detailing:

- (i) the amount of the Eligible MSB Grant (which, in any event, shall not exceed \$15,000 equivalent) and the terms and conditions of the transfer of Eligible MSB Grant funds from the Borrower to

the Eligible MSB or Eligible Association, including the obligation of the Eligible MSB to provide evidence of expenditures in order to be reimbursed for said expenditures under the Eligible Grant;

- (ii) the obligation of the Eligible MSB or Eligible Association to carry out the Project activities in accordance with this Agreement and the relevant Eligible MSB Grant Agreement;
- (iii) the obligation to provide the necessary counterpart funds by the Eligible MSB or Eligible Association to finance 50% of the respective activities under the relevant Eligible MSB Grant Agreement;
- (iv) the obligation of the Borrower to monitor and supervise the implementation of the Eligible MSB Grant, and if applicable, suspend disbursements under the relevant Eligible MSB Grant Agreement and declare the relevant Eligible MSB or Eligible Association ineligible for future Eligible MSB Grants under Part B.3 (a) of the Project; and
- (v) the right of the Borrower to inspect, by itself or jointly with representatives of the Bank, the equipment and installations financed by the Eligible MSB Grant, the operation thereof, the E-Business products and procedures developed under the relevant Eligible MSB Grant Agreement and any relevant records and documents pertaining to the activities financed by said Eligible MSB Grant.

Part B: Terms and Stipulations of Vouchers

The Operational Manual shall include, *inter alia*, the terms and stipulations of Vouchers, including:

- (a) evidence of compliance by the relevant micro business with the eligibility criteria (including, legal and technical capacity and resources – besides those to be provided by the Management Entity through the Voucher - required to carry out the activities under the relevant E-Business development plan), set forth in the Operational Manual to apply for, and receive from the Borrower, a Voucher taking into account the proposed start-up activities detailed in the business plan submitted by the Eligible MSB;
- (b) maximum amount of Vouchers to be provided to an Eligible MSB;

- (c) maximum time allowed for utilization of Vouchers;
- (d) maximum value of each Voucher; and
- (e) face value of each Voucher in relation to value of service to be purchased with Voucher (said face value to be lower than the value of the desired service so as to require a cash contribution from the Eligible MSB receiving the Voucher).