

CONFORMED COPY

LOAN NUMBER 3271 ME

(Water Supply and Sanitation Sector Project)

between

UNITED MEXICAN STATES

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated January 18, 1991

LOAN NUMBER 3271 ME

GUARANTEE AGREEMENT

AGREEMENT, dated January 18, 1991, between UNITED MEXICAN STATES (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to three hundred million dollars (\$300,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the

Borrower in respect of such loan and to undertake such other obligations as set forth in this Agreement; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower and to undertake such other obligations as set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth in Schedule 4 to the Loan Agreement (the General Conditions) constitute an integral part of this Agreement.

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

#### ARTICLE II

##### Guarantee; Provision of Funds

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Parts B.1, B.4 and B.5 of the Project through CNA, and Part B.2 of the Project through IMTA, with due diligence and efficiency and in conformity with sound technical, financial, administrative, environmental and managerial standards. Without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

Section 2.02. The Guarantor shall provide or cause to be provided, in a timely manner as needed, the funds, facilities, services and other resources required for the Project.

#### ARTICLE III

##### Other Covenants

Section 3.01. The Guarantor shall enter into the contractual arrangements referred to in Section 3.01 of the Loan Agreement and, unless the Bank shall otherwise agree, shall not change or fail to enforce any provisions of such contractual arrangements or of a Sub-loan Agreement to which it is a party.

Section 3.02. The Guarantor, through CNA, shall assist Operating Agencies in preparing the Sub-project feasibility studies referred to in Section 4.04 (c) of the Loan Agreement, which include environmental impact amelioration action plans to be prepared by CNA. CNA shall ensure that each such feasibility study specify the proportion of Sub-project costs to be covered by Sub-loans and other funds, based on the formulas set forth in

paragraph 1 of Schedule 5 to the Loan Agreement.

Section 3.03. The Guarantor shall enter into, and comply with its obligations under, Sub-loan Agreements for each Sub-project to be carried out by a state or municipal Operating Agency.

Section 3.04. The Guarantor, through CNA, shall assist Operating Agencies in carrying out the institutional strengthening component of Sub-projects and, together with the Borrower, shall supervise the Operating Agencies' execution of Sub-projects.

Section 3.05. The Guarantor, through CNA, shall, no later than December 31, 1991, present to the Bank Revaluation Guidelines, satisfactory to the Bank, for the revaluation by Operating Agencies of their fixed assets.

Section 3.06. Based on the reports received each six months from Operating Agencies pursuant to paragraph 5 (d) of Schedule 5 to the Loan Agreement, the Guarantor, through CNA, shall no later than each March 30 during Project execution and beginning in 1991, publish and furnish to the Bank a report on the performance of Operating Agencies achieved during the immediately prior calendar year.

Section 3.07. The Guarantor, through CNA and IMTA, shall monitor the carrying out of Part B.2 of the Project and shall, no later than each September 30 during Project execution and beginning in 1991, submit a report to the Bank on the status of execution of Part B.2 of the Project and on the proposed plan for execution of such Part during the immediately upcoming calendar year.

Section 3.08. The Guarantor, through CNA, shall carry out the National Water Quality and Information Program.

Section 3.09. The Guarantor, through SHCP, SPP, CNA and IMTA, shall participate in annual reviews of Project implementation to be held in conjunction with the Bank and the Borrower each month of November during Project implementation, beginning in 1991. Each such review shall, based on the reports referred to in Sections 3.06 and 3.07 of this Agreement and Section 4.08 of the Loan Agreement, examine the status of Project implementation and result in the preparation of an annual plan of action, for the Project and the water supply and sanitation sector as a whole, including specific goals and projections, satisfactory to the Bank, such annual plan of action to be carried out by the Guarantor and the Borrower during the immediately upcoming calendar year. Such reviews shall also examine progress made under the Guarantor's program, prepared in 1989, entitled Guidelines for the National Drinking Water and Sewerage Program (Lineamientos para el Programa Nacional de Agua Potable y Alcantarillado), and shall, if necessary, result in the preparation of revisions, satisfactory to the Bank, and to be implemented as part of the relevant annual plan of action, of such Guidelines. The annual plans of action shall also specify Sub-project financing proportions, satisfactory to the Bank, to be applied to Sub-projects for which Sub-loan Agreements are entered into during the year covered by the annual plans of action.

Section 3.10. (a) The Guarantor through CNA, with respect to Parts B.1, B.4 and B.5 of the Project and through IMTA with respect to Part B.2 of the Project, shall maintain separate records and accounts adequate to reflect, in accordance with sound accounting practices, the resources and expenditures in connection with those

Parts of the Project carried out by the Guarantor.

(b) The Guarantor, through CNA with respect to Parts B.1, B.4 and B.5 of the Project and through IMTA with respect to Part B.2 of the Project, shall:

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

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, or for all expenditures with respect to which with-drawals were made from the Special Account, the Guarantor shall provide to the Borrower all records and accounts necessary to allow the Borrower to perform its obligations punctually under Section 5.02 of the Loan Agreement.

Section 3.11. The Guarantor, through CNA, shall by March 31, 1991 contract with consultants, under terms of reference satis-factory to the Bank, to provide CNA with technical assistance in order to carry out Part B.1 of the Project.

Section 3.12. The Guarantor, through IMTA, shall, by no later than March 1, 1991, enter into a contract with qualified consultants to provide technical assistance to IMTA for carrying out Part B.2 of the Project.

Section 3.13. The Guarantor, through CNA, shall complete the study comprising Part B.5 (b) of the Project no later than September 30, 1991 and exchange views with the Bank regarding the study's recommendations by January 31, 1992.

#### ARTICLE IV

##### Representatives of the Guarantor; Addresses

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

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

For the Guarantor:

Direccion General de Captacion  
de Credito Externo  
Secretaria de Hacienda y

Credito Publico  
Palacio Nacional, Patio Central,  
Oficina 4025  
06066 Mexico, D.F., Mexico

Telex:

1777313-SHOCME

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	197688 (TRT),
Washington, D.C.	248423 (RCA),
	64145 (WUI) or
	82987 (FTCC)

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

UNITED MEXICAN STATES

By /s/ Gustavo Petricioli  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

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

