

Public Disclosure Authorized

**CONFORMED COPY**

**LOAN NUMBER 7948-MX**

# **Loan Agreement**

**(School-Based Management Project- Phase II)**

**between**

**UNITED MEXICAN STATES**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated November 9, 2010**

Public Disclosure Authorized

**LOAN NUMBER 7948-MX**

**LOAN AGREEMENT**

Agreement dated November 9, 2010, between UNITED MEXICAN STATES (“Borrower”) as represented by its Ministry of Finance and Public Credit, and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”).

Whereas the Borrower has informed the Bank that the proceeds of the Loan (as set forth in the table in Schedule 2 to this Agreement and for purposes of supporting the project described in Schedule 1 to this Agreement (“Project”)), shall be used in conformity with the requirements of the Borrower’s income, budgetary and public debt laws and the terms of this Agreement, the Borrower and the Bank hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of two hundred twenty million Dollars (\$220,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the Project.
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. Unless the Borrower’s representative designated in Section 6.01 of this Agreement otherwise informs the Bank, the Borrower’s representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the *Director de Organismos Financieros Internacionales* of NAFIN or any person or persons whom such representative shall designate in writing.

- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may (or may cause NAFIN) 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 withdrawn and outstanding 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 the 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 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 for which the Borrower (or NAFIN at the request of 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 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

### **ARTICLE III — PROJECT**

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower (through SEP) shall, and shall cause the States to, carry out the Project, in coordination with the Eligible Schools, all in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower (through SEP) and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — REMEDIES OF THE BANK**

- 4.01 The Additional Event of Suspension consists of the following, namely that any of the parties to the *Contrato de Mandato* or to the Coordination Agreements shall have failed to perform any of their obligations under the *Contrato de Mandato* or under the Coordination Agreements or shall have failed to perform any other commitment undertaken *vis-à-vis* the Borrower with respect to this Project (including the transparency commitments referred to in Section I.D.2 of Schedule 2 to this Agreement).
- 4.02. The Additional Event of Acceleration consist of the following, namely, that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
  - (a) the *Contrato de Mandato* has been duly executed by the parties thereto;
  - (b) the Borrower, through SHCP and SEP (in a separate legal opinion satisfactory to the Bank, issued by Borrower counsel acceptable to the Bank), and NAFIN (in a separate legal opinion satisfactory to the Bank, issued by NAFIN counsel acceptable to the Bank), indicate that the *Contrato de Mandato* has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, and NAFIN and is legally binding upon the Borrower, and NAFIN in accordance with the *Contrato de Mandato*'s terms; and

- (c) the Oficio referred to in Section I.D.2 of Schedule 2 to this Agreement has been issued and at least one State has deposited funds in the relevant FEEC as a tacit acceptance of the *Oficio*'s transparency provisions or at least one State has issued a note to SEP agreeing to comply with transparency provisions acceptable to the Bank.
- 5.02 Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on December 17, 2011.

#### ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. Except as set forth in Section 2.02 of this Agreement, the Borrower's Representative is the *Titular de la Unidad de Crédito Público* of SHCP. The authorized representative to make requests for Conversions or for an IBRD Hedge (as defined in the Hedging Guidelines) on behalf of the Borrower shall be the *Titular de la Unidad de Crédito Público* of SHCP or any person or persons whom he or she shall designate in writing for this particular purpose.
- 6.02. The Borrower's Address for the purposes of Section 10.01 of the General Conditions:
- 6.03. The Bank's Address is:

Secretaría de Hacienda y Crédito Público  
Unidad de Asuntos Internacionales de Hacienda  
Palacio Nacional  
Edificio 12, segundo piso  
Colonia Centro  
06000 México, D.F.  
Facsimile: 011-52-55-3688-1216

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)	1-202-477-6391

AGREED at Mexico City, Mexico, as of the day and year first above written.

**UNITED MEXICAN STATES**

**By /s/ Gerardo Rodríguez Regordosa**

**Authorized Representative**

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**

**By /s/ Gloria M. Grandolini**

**Authorized Representative**

## SCHEDULE 1

### Project Description

The objective of the Project is to strengthen PEC by increasing overall coverage and social participation in Eligible Schools while putting greater emphasis on public marginalized schools and on the indigenous population, as well as a reorientation of the School Grants to improve public schools' internal efficiency and learning outcomes.

The Project constitutes the second phase of the Program, and 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 objective:

#### Part 1: School Grants

Provision of support to PEC, through the provision of School Grants to Eligible Schools to implement school improvement plans.

#### Part 2: Monitoring and Oversight

- (a) Provision of support for: (i) the continuous operation, maintenance and upgrading of the PEC national management information system; and (ii) the accreditation and strengthening of State programs to manage information systems, to ensure that the information obtained through the referred State systems is compatible with the national management information system referred under Part 2 (a) (i) above and provides all the technical and fiduciary information required for the satisfactory implementation of the Project in the relevant State.
- (b) Provision of technical assistance to monitor and oversee the Project through, *inter alia*: (i) the carrying out of supervision visits; (ii) the organization and carrying out of seminars and workshops at state level; and (iii) the coordination of regional and national meetings attended by PEC's federal and state authorities.
- (c) Design and implementation of an information campaign to disseminate Project objectives, activities and results.

#### Part 3: Policy Development and Evaluation

- (a) Carrying out of evaluations and assessments to create a strong analytical basis for development and improvement of PEC, including: (i) an external evaluation of PEC's performance and preparation of an annual report; (ii) a qualitative evaluation to determine the non-quantifiable benefits accruing from PEC; (iii) SEP student learning achievements assessments using national education standards for each school year; and (iv) one impact evaluation of the Project.
- (b) Carrying out of Project-related policy studies including, *inter alia*, (i) studies focusing on improving the coordination of PEC with other SEP programs,

including a study to improve the coordination of PEC with the program administered by CONAFE, and a study to improve the coordination of PEC with the *Oportunidades* Program, and (ii) studies focusing on improving the equity and efficiency of PEC.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower (through SEP) and the Bank may otherwise agree, the Borrower (through SEP) shall, and shall cause the States to, in coordination with the Schools, carry out the Project in accordance with the Operational Manual. Except as the Bank shall otherwise agree, the Borrower shall not amend, waive or fail to enforce any provision of the Operational Manual without the Bank's prior written approval. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.
- (b) Without limitation upon the provisions of Section 3.01 of this Agreement and any other provisions for Project implementation *set forth in this Agreement, with respect to Part 3(a) (i) of the Project*, the Borrower (through SEP) shall (i) hire consultants (acceptable to the Bank and who will work under terms of reference satisfactory to the Bank) to carry out the external evaluation of PEC's performance referred under Part 3(a)(i) *ab initio* of the Project, and (ii) prepare, with internal staff of PEC, the annual report referred under Part 3(a)(i) *in fine* of the Project.
2. (a) The Borrower (through SEP) shall maintain an operational manual, satisfactory to the Bank, containing, inter alia, specific provisions on detailed arrangements for the carrying out of the Project, including:
  - (i) the procurement, disbursement and financial management requirements for the Project;
  - (ii) the IPP;
  - (iii) the Key Performance Indicators;
  - (iv) the PEC operational rules, including: (A) the different type of School Grants to be provided under PEC; (B) the conditions for Schools to receive grants under PEC; (C) the selection criteria and priorities established by SEP and to be followed by the AEEs in the award of School Grants (including Eligible Schools

- with students which come from families that benefit from the *Oportunidades* Program); and (D) the criteria for the school plan to be prepared by Eligible Schools in support of School Grant proposals;
- (v) the environmental and health regulations to be observed in case minor construction or rehabilitation activities need to be carried out in the context of School Grants; and
  - (vi) transparency and anticorruption provisions, including a provision stating that part of the funds for the PEC are provided by the Bank through this Agreement, and therefore establishing audit, information and investigation rights for the Borrower (through SEP) which the Borrower hereby agrees to share with the Bank as set forth in Section D below.
- (b) The Borrower shall not amend the Operational Manual without the prior agreement with the Bank; provided, however, that the Borrower will be able to modify the section of the Operational Manual that includes the PEC Operational Rules when such modification does not, in the opinion of the Borrower and the Bank, adversely affect the performance or the objectives of the Project.
3. (a) The Borrower (through SEP) shall enter into a separate Coordination Agreement, satisfactory to the Bank, for purposes of the Project, with each of the States, whereby:
- 1. the Borrower (through SEP) shall agree to provide or cause to be provided, in a timely manner as needed and as provided for in the Operational Manual, the funds required for implementing the Project within each State; and
  - 2. the State shall agree to assist the Borrower in the carrying out of the Project.
- (b) The Borrower (through SEP) shall ensure that each Coordination Agreement be duly authorized or ratified by, and executed and delivered by, the Borrower (through SEP) and each State and be legally binding upon the Borrower (through SEP) and each State in accordance with the relevant Coordination Agreement's terms.
4. The Borrower (through SEP) shall cause each State to abide by all applicable Project provisions laid out in this Agreement, including the carrying out of the Project in accordance to the Operational Manual (including the IPP and the Anti-Corruption Guidelines).

5.
  - (a) The Borrower (through SEP) shall cause each State to ensure that each Eligible School carries out the activities under the relevant School Grant proposal in accordance with the provisions of this Agreement.
  - (b) In order for an Eligible School to receive a School Grant: (i) the Eligible School shall have entered into, and be in compliance with, an agreement with the relevant State (through its AEE) whereby, in exchange for deposits by the State of funds in a bank or other account controlled by the Eligible School, said Eligible School agrees to use such proceeds solely for purposes of Part 1(a) of the Project, to abide by the relevant provisions of the Operational Manual and to allow audits and review of records by, or on behalf of, the Borrower (through SEP) and the relevant State of the use of such proceeds.
6.
  - (a) The Borrower (through SEP) shall exercise its rights and carry out its obligations under the Coordination Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.
  - (b) Except as the Bank shall otherwise agree, the Borrower (through SEP) shall not assign, amend, abrogate, waive or fail to enforce the Coordination Agreements or any of their provisions in a manner that in the opinion of the Borrower or the Bank adversely affects the performance or the objectives of the Project.
7. Consistently with Section 7 of the Disbursement Guidelines:
  - (a) if the Bank determines at any time, through regular Project supervision and auditing, that an amount of the Loan, disbursed pursuant to Category (1) in the table in Section IV.A of Schedule 2 to this Agreement, was not used by an Eligible School to acquire goods, works or services for purposes of the Project in accordance with the terms of this Agreement, the Borrower shall promptly furnish to the Bank additional evidence, as the Bank may request, to justify the use of said amount of the Loan, (in the case of such a request made by the Bank within one month before the Closing Date, the Borrower shall have up to four months after the Closing Date to furnish the requisite additional evidence to the Bank); and
  - (b) in the event that the evidence referred to in paragraph (a) of this paragraph is not furnished to or found satisfactory by the Bank, the Bank reserves the right at all times to request a refund of the corresponding portion of the Loan for inclusion in the Loan Account.

8. The Borrower (through SEP) shall:
- (a) maintain at all times during Project implementation a team acceptable to the Bank, which shall be responsible for overall planning, coordination, implementation, supervision, technical support for basic education, monitoring and evaluation of the Project, and which shall have, *inter alia*, the responsibility for the preparation of the financial statements, financial reports and Project Reports, and maintenance of the records and accounts referred to in Section II of Schedule 2 to this Agreement.
  - (b) ensure that the team referred in Section I.A.8 (a) of this Schedule is at all times staffed with at least a Project coordinator, a procurement specialist and a financial management specialist, all with terms of reference and experience acceptable to the Bank;
  - (c) ensure that the team referred in Section I.A.8 (a) of this Schedule 2 is provided with adequate facilities, satisfactory to the Bank, to carry out its responsibilities;
  - (d) with the collaboration of the relevant State, maintain records and separate accounts adequate to reflect, in accordance with sound accounting practices, the funds and other resources it (and/or any Eligible Schools or States) has received, allocated and/or spent in connection with the Project;
  - (e) carry out, and/or cause any Eligible School or State to comply with the provisions of Section III of this Schedule with respect to Part 1 of the Project; and
  - (f) cooperate fully with NAFIN so as to allow NAFIN to comply with NAFIN's obligations referred to in this Agreement.

**B. Contrato de Mandato**

1. The Borrower, through SHCP, shall enter into a contract (*Contrato de Mandato*), satisfactory to the Bank, among SEP and NAFIN, whereby, *inter alia*:
- (a) NAFIN agrees to act as financial agent of the Borrower with regard to the Loan, meaning that, *inter alia*, NAFIN agrees 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 and agrees to maintain and operate the designated account (referred to in the additional instructions cited in Section IV.A.1 of this Schedule 2) in compliance with the terms of this Agreement;

- (b) NAFIN agrees to abide by the Anti-Corruption Guidelines;
  - (c) the Borrower (through SEP) agrees to carry out the Project in accordance with the provisions of this Agreement, including the IPP, the Anti-Corruption Guidelines, and the Operational Manual (including the Project's financial management and procurement arrangements);
  - (d) the Borrower, through SHCP, shall have the right to, in case of fraud or corruption (as defined in the Anti-Corruption Guidelines) provide for the early termination of the *Contrato de Mandato*, or temporarily suspend its effects, or, if applicable, require the restitution of funds transferred to NAFIN under said *Contrato de Mandato*; and
  - (e) the Borrower (through SEP) agrees to cooperate fully with NAFIN to ensure that NAFIN is able to comply with all of NAFIN's obligations referred to in Section I.B.1(a) and (b) herein.
2. The Borrower shall exercise its rights and carry out its obligations under the *Contrato de Mandato* in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Loan. The Borrower shall not amend, waive or fail to enforce the *Contrato de Mandato* or any provision thereof, except as the Bank may otherwise agree. In case of any conflict between the terms of the *Contrato de Mandato* and those of this Agreement, the terms of this Agreement shall prevail.

**C. Trust Agreements (Fideicomisos)**

- (a) The Borrower (through SEP) shall transfer the funds to finance Parts 1 of the Project through the FNEC and through the relevant FEEC.
- (b) The Borrower shall ensure and shall cause the States to ensure, through the exercise of the Borrower's voice and voting rights and the exercise of the State's voice and voting rights in the technical committees of the FNEC or the FEECs, as it may correspond, that the Project is carried out in accordance with the provisions of this Agreement (including the Anti-Corruption Guidelines provisions and the IPP).
- (c) The Borrower shall exercise its rights and carry out its obligations under the FNEC and under the FEECs in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Loan. Except as the Bank may otherwise agree, the Borrower shall not amend, waive or fail to enforce any provision of the FNEC or of any of the FEECs. In case of any conflict between the terms of the FNEC or of the FEECs and those of this Agreement, the terms of this Agreement shall prevail.

**D. Anti-Corruption**

1. The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines. In this regard, the Borrower, through SEP or through any other entity as the Borrower may deem appropriate, shall, *inter alia*, ensure compliance with paragraph 9 (d) of the Anti-Corruption Guidelines as follows:
  - (a) by requiring the States to take appropriate measures to prevent, inform on, respond to and investigate corrupt, fraudulent, collusive, coercive and obstructive practices with respect to their payment (or that of their agents) of School Grants;
  - (b) by allowing the Bank to inspect accounts, records and other documents of any/or all the States relating to the Project upon the Bank's request and in the company of SEP representatives;
  - (c) by allowing the Bank, at its request, to have such accounts, records and other documents audited by or on behalf of the Bank, using the Bank's terms of reference for such purpose, with the collaboration of the Borrower, through SEP; and
  - (d) by agreeing to obtain restitution from any/or all of the States, as the case may be, of any amount of the Loan with respect to which fraud and corruption has occurred, all the above pursuant to audit, transparency, control, restitution and information sharing clauses within the Coordination Agreements and its annual annexes, the Operational Manual, letters from the State to the Borrower (to SEP), the *Oficio* referred under Section I.D.2 below, and/or any other means (including, but not limited to the Borrower's rights under the Federal Budget and Fiscal Responsibility Law, the General Public Debt Law, and the Monitoring and Accountability Law).
2. The Borrower (through SEP) shall issue a notice (*Oficio*) acceptable to the Bank asking the States to comply with transparency provisions, and stating that once the States have deposited funds in the relevant FEEC, such deposit will be interpreted as a tacit acceptance of the *Oficio*'s transparency provisions.
3. The Borrower (through SEP) shall issue a notice to the financial institutions that administer the funds under the FNEC and the FEECs informing them of the existence of the Anti-Corruption Guidelines (and accompanying a copy thereof), and notifying them that if any of those financial institutions incur in any of the sanctionable offences described under the Anti-Corruption Guidelines, the Bank may sanction the relevant financial institution in accordance with the Bank's sanctions regime.

## **Section II. Project Monitoring Reporting and Evaluation**

### **A. Project Reports**

The Borrower (through SEP) shall, and shall cause the States, to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of Key Performance Indicators. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than sixty (60) days after the end of the period covered by such report.

### **B. Financial Management, Financial Reports and Audits**

1. The Borrower (through SEP) shall, and shall cause the States, to maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower (through SEP) shall prepare and furnish to the Bank not later than forty five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the pertinent semester, in form and substance satisfactory to the Bank.
3. The Borrower (through SEP) shall have the Project Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower, commencing with the fiscal year in which the Project becomes effective. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

## **Section III. Procurement**

### **A. General**

1. **Goods, Works and Services (other than Consultants' Services).** All goods, works and Services (other than Consultants' Services) required for the Project and to be financed with an amount equivalent to the amount in Dollars provided under the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed with an amount equivalent to the amount in Dollars provided under the Loan shall be procured in accordance with the requirements set forth or

referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.
4. **Special Provisions.** The Borrower (through SEP) shall: (a) supply the SEPA with the information contained in the initial Procurement Plan within 45 days after the Project has been approved by the Bank; and (b) update the Procurement Plan at least once a year, or as needed through the duration of the Project, to reflect the actual Project implementation needs and progress and supply the SEPA with the information contained in the updated Procurement Plan immediately thereafter.

**B. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and services (other than Consultants' Services) shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.
2. **Other Methods of Procurement of Goods, Works and Services (other than Consultants' Services).** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and services (other than Consultants' Services). The Procurement Plan shall specify the circumstances under which such methods may be used.

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based

Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b><u>Procurement Method</u></b>
(a) Quality-Based Selection
(b) Selection under a Fixed Budget
(c) Least-Cost Selection
(d) Selection Based on the Consultants' Qualification
(e) Single Source Selection
(f) Procedures set forth in paragraphs 5.2, 5.3 and 5.4 of the Consultant Guidelines for the selection of Individual Consultants

**D. Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

**Section IV. Withdrawal of Loan Proceeds**

**A. General**

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank may specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions).
2. The Bank shall, on behalf of the Borrower, withdraw from the Loan Account on or after the Effective Date and pay to itself the Front-end Fee payable pursuant to Section 3.01 of the General Conditions. The remaining proceeds of the Loan shall be disbursed in Dollars unless otherwise agreed between the Borrower and the Bank and so reflected in the additional instructions referred in Section IV.A.1 immediately above. Consistently with Section 2.05 of the General Conditions, the Borrower shall use an amount equivalent to the amount in Dollars provided under the Loan Agreement to finance Eligible Expenditures.
3. The following table specifies the categories of Eligible Expenditures that may be financed with an amount equivalent to the amount in Dollars provided under the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<b><u>Category</u></b>	<b><u>Amount of the Loan Allocated (expressed in USD)</u></b>	<b><u>Percentage of Expenditures to be financed (inclusive of Taxes)</u></b>
(1) Goods, Works and Consultants' Services financed under School Grants	211,720,000	90%
(2) Operating Costs	3,300,000	100%
(3) Consultant Services	4,430,000	100%
(4) Front-end Fee	550,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(5) Premia for Interest Rate Caps and Interest rate Collars (amounts due under section 2.07 (c) of this Agreement)	0	
<b>TOTAL AMOUNT</b>	<b>220,000,000</b>	

4. For purposes of this Section IV.A the following term shall have the following meaning:

- (a) "Operating Costs" means the reasonable costs related to (i) conferences, workshops and training related expenditures (including space and equipment rental, and utilities), (ii) transportation and supervision costs (including reimbursement of travel costs and reasonable per diems), (iii) dissemination costs (including printing costs, and public events), and (iv) minor office supplies.

**B. Withdrawal Conditions; Withdrawal Period**

1. (a) Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$44,000,000 equivalent may be made for payments made prior to this date but after June 30, 2009 but in no case made more than twelve (12) months prior to the date of this Agreement; and.

- (b) for payments made under Category (1) of the table under Part A of this Section unless the State for which School Grants will be financed has either (i) deposited funds under the relevant FEEC as a tacit acceptance of the transparency provisions requested under Section I.D.2 of Schedule 2 to this Agreement or (ii) sent a note to SEP committing to comply with transparency provisions acceptable to the Bank.
- 2. The Closing Date is June 30, 2013.

### **SCHEDULE 3**

#### **Amortization Schedule**

The Borrower shall repay the principal amount of the Loan in full on December 15, 2027.

## APPENDIX

### Section I. Definitions

1. “AEE” means *Autoridad de Educación Estatal*, the education authority (Public Education Secretariat or equivalent) of each State.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “CONAFE” means the Borrower’s National Council for Educational Development (*Consejo Nacional de Fomento Educativo*), regulated under a Decree of the Borrower, published in the Borrower’s Official Gazette on September 10, 1971 (as amended by a Decree published in the Borrower’s Official Gazette on February 11, 1982).
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “*Contrato de Mandato*” means the Agreement to be entered into among the Borrower, through SHCP, SEP and NAFIN, pursuant to Section I.B.1 of Schedule 2 to this Agreement.
7. “Coordination Agreement” means any of the agreements referred to in Section I.A.3 of Schedule 2 of this Agreement.
8. “Eligible School” means a public school located in the Borrower’s territory, where basic education (pre-school and grades 1 through 9) level classes are held, which school meets eligibility criteria set forth in the Operational Manual (as hereinafter defined) to participate as a beneficiary school under PEC (as hereinafter defined).
9. “FEEC” means each of the trust funds (*fideicomiso*) duly established in each of the States or any subaccount established in the FNEC and managed by the relevant State as part of the implementation structure of PEC, with the objective of channeling PEC funds in the form of School Grants to Eligible Schools, as said trust funds may be amended with the agreement of the Bank.

10. “Federal Budget and Fiscal Responsibility Law” means the Borrower’s *Ley Federal de Presupuesto y Responsabilidad Hacendaria*, as said law and its subsequent amendments have been published in the Official Gazette through December 31, 2008.
11. “FNEC” means the Borrower’s national trust fund (*fideicomiso*) established as part of the implementation structure of PEC (as hereinafter defined), pursuant to the trust fund agreement dated August 22, 2001 with the objective of channeling PEC funds to the FEECs, as said trust fund may be amended with the agreement of the Bank.
12. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
13. “General Public Debt Law” means the Borrower’s *Ley General de Deuda Pública*, as said law and its subsequent amendments have been published in the Official Gazette through December 21, 1995.
14. “Hedging Guidelines” means the Bank’s Guidelines for Using Hedging Products dated March 23, 2009 or any later guidelines issued by the Bank to replace said guidelines.
15. “IPP” means the Borrower’s Indigenous Peoples Plan dated January 2010.
16. “Key Performance Indicators” means the indicators, satisfactory to the Bank, for monitoring and evaluating progress towards the attainment of Project objectives.
17. “Monitoring and Accountability Law” means the Borrower’s *Ley de Fiscalización y Rendición de Cuentas de la Federación*, as said law and its subsequent amendments have been published in the Official Gazette through May 29, 2009.
18. “NAFIN” means *Nacional Financiera, S.N.C.*, a Mexican development bank serving as the Borrower’s financial agent for purposes of the Loan.
19. “Official Gazette” means the Recipient’s official gazette (*Diario Oficial de la Federación*).
20. “Oficio” means the notice referred in Section I.D.2 of Schedule 2 to this Agreement.
21. “Operational Manual” means the manual referred to in Section I.A.1 of Schedule 2 to this Agreement, dated April 26, 2010, as said manual may be amended from time to time with the Bank’s prior approval.

22. “*Oportunidades* Program” means the Borrower’s program to assist poor families through the provision of cash transfers conditional on compliance with the conditions referred to in the operational rules in the Borrower’s Official Gazette on December 29, 2009.
23. “PEC” means the Borrower’s *Programa Escuelas de Calidad*, which program operates under the operating rules published in the Official Gazette on December 24, 2009, with the objective of, *inter alia*: strengthening and promoting schools’ autonomy, parental participation accountability, and the active involvement of the schools’ community in the delivery of basic education services, through the provision of School Grants.
24. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
25. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 14, 2010, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
26. “Program” means the Borrower’s School-Based Management Program detailed in the letter from the Borrower to the Bank dated October 12, 2005.
27. “School Grant” means a grant not to exceed \$9,000 equivalent per Eligible School per year, made or proposed to be made under PEC, through FNEC and FEEC, out of the proceeds of the Loan, to Eligible Schools for the financing of goods, works and services to implement school improvement plans, under Part 1 of the Project.
28. “SEP” means *Secretaría de Educación Pública*, the Borrower’s Public Education Ministry.
29. “SEPA” means the Bank’s publicly accessible Procurement Plans Execution System.
30. “SHCP” means *Secretaría de Hacienda y Crédito Público*, the Borrower’s Ministry of Finance and Public Credit.
31. “State” means the Federal District (*Distrito Federal*) and any of the other thirty one geopolitical subdivisions (*Estados*) of the Borrower.

## **Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

*“Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest*

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (l) of Section 7.02 is modified to read as follows:

*“Section 7.02. Suspension by the Bank*

... (l) *Ineligibility.* The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (b) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”

