

**CONFORMED COPY**

**LOAN NUMBER 7127-ME**

# **Loan Agreement**

**(Tax Administration Institutional Development Project)**

**between**

**UNITED MEXICAN STATES**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated September 30, 2002**

**LOAN NUMBER 7127-ME**

**LOAN AGREEMENT**

AGREEMENT, dated September 30, 2002, between UNITED MEXICAN STATES (the Borrower), represented by its signatory on page 11 of this Agreement, and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Borrower, having satisfied itself 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 to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

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

(a) “FMR” means each financial monitoring report referred to in Section 4.02 of this Agreement;

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

(c) “NAFIN Contract” means the contract referred to in Section 3.02 (a) of this Agreement;

(d) “Operational Manual” means the manual referred to in Section 3.03 (a) of this Agreement, as such manual may be amended from time to time with the agreement of the Bank;

(e) “SAT” means *Servicio de Administración Tributaria*, the Borrower’s Tax Administration Service created pursuant to the SAT Law, or any successor thereto acceptable to the Bank;

(f) “SAT Law” means the Borrower’s tax administration law (*Ley del Servicio de Administración Tributaria*) published on December 15, 1995 in the Borrower’s Official Gazette (*Diario Oficial de la Federación*), and entered into effect on July 1, 1997, and said term includes the regulations to said law, as said law and regulations have been amended to the date of this Agreement; and

(g) “Special Account” means the account referred to in Section 2.02 (a) of this Agreement.

## 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-two million Dollars (\$52,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) The Borrower may, for the purposes of the Project, cause NAFIN to open and maintain in Dollars a separate special deposit account on the Borrower's behalf either: (i) in *Banco de México* on terms and conditions satisfactory to the Bank; or (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, 2007 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 percent (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 such fee.

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

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

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on March 15 and September 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, and, to this end, shall carry out the Project through SAT (with the assistance of NAFIN pursuant to the NAFIN Contract), all with due diligence and efficiency and in conformity with appropriate administrative, financial and fiscal practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) The Borrower, through SAT, shall enter into a contract (*Contrato de Mandato*) with NAFIN, satisfactory to the Bank, whereby:

- (i) 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, 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 review referred to in Section 3.05 (d) of this Agreement; and
- (ii) the Borrower agrees that, through SAT, the Borrower shall cooperate fully with NAFIN to ensure that NAFIN is able to comply with all of NAFIN's obligations referred to in paragraph (a) of this Section.

(b) The Borrower shall exercise its rights and carry out its obligations under the NAFIN Contract 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 or fail to enforce any provision of the NAFIN Contract. In case of any conflict between the terms of the NAFIN Contract and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.03. (a) Without prejudice to Section 3.01 of this Agreement, the Borrower, through SAT, shall carry out the Project in accordance with an operational manual satisfactory to the Bank, which shall include, *inter alia*, the Project indicators, procedures and requirements on Project accounting, internal controls, planning, budgeting, financial reporting (including format and contents of FMR), auditing and disbursements.

(b) In case of discrepancy between the provisions of the Operational Manual and those of this Agreement, the provisions set forth in this Agreement shall prevail.

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods, works 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 3.05. The Borrower, through SAT, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Operational Manual, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, each February 15 and August 15 during Project implementation, starting with the report due not later than February 15, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the calendar semester preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) not later than February 15 of each year during Project implementation, starting with the procurement plan due not later than February 15, 2003, prepare and furnish to the Bank, a procurement plan, acceptable to the Bank, which plan shall include, *inter alia*, the Project activities to be carried out by the Borrower during the twelve calendar months following the presentation of said plan, a timetable for the implementation of said Project activities and the appropriate procurement methods as provided in Schedule 4 to this Agreement; and

(d) review with the Bank and NAFIN, starting on March 31, 2003, or such later date as the Bank shall request, the pertinent reports referred to in paragraph (b) of this Section, and, thereafter, 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 reports and the Bank's views on the matter.

Section 3.06. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through SAT, 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 SAT - and cause NAFIN to maintain, a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall, through SAT, and shall cause NAFIN to:

- (i) cause the records, accounts and financial statements referred to in paragraph (a) of this Section, and the records and accounts for the Special Account, for each fiscal year to be audited, in accordance with auditing standards acceptable to the Bank consistently applied, by independent and qualified auditors;
- (ii) furnish (or cause to be furnished) to the Bank as soon as available, but in any case not later than six months after the end of such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested (including, as part of the information to be provided in the first such report, a management letter concerning SAT's and NAFIN's internal controls); and
- (iii) furnish (or cause to be furnished) to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall, through SAT, 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 or cause to be retained 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 Borrower's progress reporting obligations set out in Section 3.05 of this Agreement, the Borrower shall, through SAT and with assistance of NAFIN, prepare and furnish to the Bank a financial monitoring report, 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 implementation; 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 event is specified, namely, that the Borrower's institutional or legal framework (or any provision thereof) enabling or supporting this Project, as determined by the Bank, as of the date of this Agreement shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect materially and adversely, in the opinion of the Bank, the ability of the Borrower to carry out the Project.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that any of the events specified in Section 5.01 of this Agreement shall occur.

## **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 Operational Manual has been issued by the Borrower in a manner satisfactory to the Bank; and
- (b) the NAFIN Contract has been entered into by the Borrower and NAFIN.

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 Borrower (in its legal opinion) and NAFIN (in a separate legal opinion satisfactory to the Bank, issued by NAFIN counsel acceptable to the Bank), indicate that the NAFIN Contract 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 NAFIN Contract's terms.

Section 6.03. The date December 30, 2002 is hereby specified for the purposes of Section 12.04 of the General Conditions.

**ARTICLE VII**

**Representative of the Borrower; Addresses**

Section 7.01. Except as provided in Section 2.10 of this Agreement, the *Director General de Crédito Público* of the Borrower's Secretariat of Finance and Public Credit 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 Borrower:

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

Cable address:

1777313-SHOCME

Facsimile:

011-52-5-228-1156

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

Facsimile:

(202) 477-6391

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/ Francisco Gil Díaz

Authorized Representative  
Secretariat of Finance and Public Credit

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ James D. Wolfensohn

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) Works	500,000	70%
(2) Goods	8,520,000	100% of foreign expenditures and 86% of local expenditures
(3) Consultants' services	41,460,000	100% of foreign expenditures and 83% of local expenditures
(4) Training	1,000,000	83%
(5) Front-end fee	520,000	Amount due under Section 2.04 of this Agreement
(6) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
<b>TOTAL</b>	<u><b>52,000,000</b></u>	

2. For the purposes of this Schedule:

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

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

(c) the term “Training” means expenditures for the reasonable cost of the carrying out of workshops, seminars and studies (including equipment and facility rental, printed material, travel and *per diems* and excluding trainer fees).

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding an amount equal to \$5,000,000, may be made in respect of Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after February 10, 2002 (but in no case made more than twelve months before the date of this Agreement).

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 works, with the exception of the contracts that are subject to prior review by the Bank as set forth in Part D.2 of Section I of Schedule 4 to this Agreement; (b) contracts for goods costing less than \$500,000 equivalent each, with the exception of the first two contracts; (c) contracts for the employment of consulting firms costing less than \$100,000 equivalent each; (d) contracts for the employment of individual consultants costing less than \$50,000 equivalent each, all under such terms and conditions as the Bank shall specify by notice to the Borrower; and (e) contracts for training activities.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to strengthen SAT's institutional and operational capacity for purposes of improving tax compliance and reducing evasion of federal taxes.

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: Taxpayer Services

Strengthening of SAT's taxpayer services through, *inter alia*: (a) the design and implementation of a SAT e-strategy, including the redesign and simplification of processes concerning taxpayers' filing of tax revenues and other related documentation, as well as tax payment obligations and other tax obligations; (b) the improvement of the services to taxpayers; (c) the redesign of stakeholders' surveys and other mechanisms for assessing taxpayers' feedback; (d) the design and establishment of a monitoring system for taxpayers' complaints; (e) the improvement of the client service culture within SAT, including the design and adoption of taxpayers' service standards; and (f) the design and implementation of a program to disseminate information to the public with respect to SAT's activities.

#### Part B: Management, Human, Financial and Physical Resources

1. Strengthening of SAT's human resources management function, through, *inter alia*: (a) the preparation of new policies and procedures for selecting, hiring, managing, evaluating, training, sanctioning and laying-off its personnel; (b) the design and establishment of a human resource database; (c) the carrying out of a survey of its staff's competence, strengths and daily workload; (d) the identification of staff skill requirements; (e) the design and implementation of a training program for its staff; (f) the design and establishment of a performance management system for its staff (which system shall include a performance-based incentives sub-system); and (g) the development of a staff communication program.

2. Strengthening of SAT's financial resources management function, through, *inter alia*: (a) the carrying out of a review of its budget and accounting system; and (b) the creation of a database and the establishment of a system that will facilitate the use of budgeting as a planning tool.

3. Strengthening of SAT's physical resources management function, through, *inter alia*: (a) the acquisition and implementation of a physical resources management system, which system shall include an initial inventories and control sub-system; and (b) the establishment of a confiscated/held merchandise inventory and a system for monitoring the disposal of said merchandise.

4. Strengthening of SAT's services (such as through design and implementation of surveys, and design and development of application systems) to units and/or staff within SAT, through, *inter alia*: (a) the definition of policies for the provision of said services; (b) the establishment of an inventory of potential service providers; and (c) the design of criteria for the selection and hiring/contracting of said service providers.

#### Part C: Information Hub

Strengthening of SAT's capacity to disseminate and manage information within and outside of SAT, through, *inter alia*: (a) the designation of a chief information officer; (b) the definition of policies governing access to, and security of, said information; (c) the development of processes and systems to enable SAT's staff to access and share information from current operational databases; (d) the development of databases which can be accessed by SAT' staff or the general public for purposes of obtaining information on SAT's activities and services; and (e) the development of systems for assuring the maintenance of proper quality control and management of SAT's information systems.

#### Part D: Technology Services

Strengthening of SAT's information technology capacity, through, *inter alia*: (a) the development of an information technology and communications strategy consistent with SAT's business plans and objectives; (b) the development of strategies for information security and integrity, including the implementation of firewalls; (c) the development and implementation of a plan for the resumption of information technology services in the event of damage caused by a disaster or other disruptive event; (d) the development of a contingency plan for minor technical faults of equipment, including the acquisition and utilization of backup equipment; (e) the development of a plan for hardware consolidation and upgrading, and the acquisition and utilization of the hardware and software for purposes of testing the integration of SAT's systems; (f) the centralization of databases and information systems; (g) the upgrade of existing equipment; (h) the carrying out of studies of office workflows and viable document management options and the scanning of archived documents; (i) the development and introduction of automated administrative systems; and (j) carrying out minor works to prepare offices for equipment installation and cabling.



Part E: Compliance Process

Implementation of the SAT's taxpayer compliance function through, *inter alia*: (a) the upgrade of the taxpayer registry; (b) the creation of the single taxpayer account; (c) the development of databases encompassing taxpayer information obtained from internal and external sources, and the establishment of control systems for said databases; (d) the improvement of the taxpayer notification system; and (e) the creation of an internal SAT survey service.

Part F: Control and Enforcement

Strengthening of SAT's compliance control functions through, *inter alia*: (a) the development of criteria for selecting cases to be audited; (b) the review of the entire process of tax compliance enforcement and development of systems that will govern and evaluate SAT's auditor performance; (c) the design of methods for tax evasion tendency identification; (d) the development of tax evasion audit review guidelines and methods; (e) the carrying out of studies on tax evasion; and (f) the development of systems for monitoring the status of cases involved in dispute resolution and judicial adjudication.

Part G: Planning and Quality Control

Strengthening of SAT's planning, management, and quality control functions, through, *inter alia*: (a) the development of: (i) multi-year strategic plans and annual operation plans; (ii) management policies, guidelines and procedures; and (iii) policies and procedures for quality control of SAT's operations; and (b) the strengthening of the functions and responsibilities of the advisory group to SAT's president to enable said group to assume the results management function and to assist SAT's units in aspects of planning, management and quality control.

\* \* \*

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

### 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 March 15 and September 15	
Beginning March 15, 2008 through September 15, 2017	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 sub-paragraph (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 sub-paragraph 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 and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each and contracts for works shall be grouped in bid packages estimated to cost \$10,000,000 equivalent or more.

(b) Preference for Domestically Manufactured Goods

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

(c) Notification and Advertising

The invitation to bid for each contract shall be advertised in the Borrower’s public electronic advertising and bidding system (*COMPRANET*) and in the Borrower’s Official Gazette (*Diario Oficial de la Federación*).

The invitation to bid for each contract 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

(a) Goods estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$3,480,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Procurement of goods under this Part shall be carried out using standard bidding documents acceptable to the Bank.

2. International or National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,160,000 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. Procurement of small works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount of \$700,000 equivalent required to rehabilitate office space under Part D (j) of the Project shall be procured in accordance with procedures acceptable to the Bank, which procedures may include, inter alia, procurement under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form agreement acceptable to the Bank, and relevant drawings, where applicable. The contract shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods 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

With respect to each contract for goods to be awarded under Part B and the first two contracts to be awarded under Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

2. A specific procurement notice shall be published in *United Nations Development Business* to obtain expressions of interest for contracts for consulting services estimated to cost more than \$200,000 equivalent.

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$200,000 equivalent per

contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Consultants' services for assignments which involve intensive manpower activity (such as for the carrying out of surveys, inventories and document scanning) estimated to cost less than \$200,000 equivalent per contract and up to an aggregate amount of \$1,500,000 equivalent, as approved by the Bank, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Consultants' services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines and up to an aggregate amount of \$5,480,000 equivalent shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

3. Services to support training activities

Services to support training activities (including equipment rental and facilities rental) estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount of \$1,160,000 equivalent shall be procured in accordance with procedures acceptable to the Bank, which procedures may include, inter alia, procurement under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three qualified domestic service providers - as it may correspond - in response to a written invitation. The contract shall be made to the bidder who offers the lowest price quotation for the required service, and who has the experience and resources to complete the contract successfully.

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

1. Selection Planning

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

accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

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

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

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 Consultant Guidelines shall apply, provided, however, that the terms of reference for the respective assignments shall be subject to the Bank's prior review and approval.



## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means the amount of \$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 duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
  - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

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

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

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

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.