

CONFORMED COPY

LOAN NUMBER 7887-MX

Loan Agreement

(Upper Secondary Education Development Policy Loan)

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 9, 2010

LOAN AGREEMENT

Agreement dated June 9, 2010, entered into between UNITED MEXICAN STATES (“Borrower”) represented by *Secretaría de Hacienda y Crédito Público*, its Ministry of Finance and Public Credit (SCHP) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework.

Whereas the Borrower has informed the Bank that the proceeds of the Loan (as set forth in the table in Section II of Schedule 1 to this Agreement and for purposes of supporting the Program), 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.
- 1.02. 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 seven hundred million Dollars (\$700,000,000), 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”).
- 2.02. As a consequence of the Borrower’s maintenance of an adequate macroeconomic policy framework and its satisfactory implementation of the Program, the Borrower may withdraw or may cause NAFIN to withdraw the proceeds of the Loan in accordance with Section II of Schedule 1 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%).

- 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 2 to this Agreement.
- 2.07. (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 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 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.
- 2.08. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower (through SEP) declares its commitment to the Program and its results. To this end, and further to Section 5.08 of the General Conditions:

- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic framework and the progress achieved in the implementation of the Program;
 - (b) prior to each such exchange of views, the Borrower (through NAFIN) shall furnish to the Bank for its review and comment a report on the progress achieved in the implementation of the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall or shall cause NAFIN to promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.
- 3.02. (a) The Borrower, through SHCP, shall enter into a contract (*Contrato de Mandato*) among SHCP, SEP and 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 in compliance with the terms of this Agreement; and
 - (ii) the Borrower, through SHCP and SEP, 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, through SHCP and SEP, 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. Except as the Bank may otherwise agree, the Borrower shall not amend or fail to enforce any provision of the *Contrato de Mandato*. 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.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Events of Suspension consist of the following:

- (a) A situation has arisen which, in the opinion of the Bank, shall make it improbable that the Program, or a significant part thereof, will be carried out.

- (b) The Borrower's macroeconomic policy framework has, in the opinion of the Bank, become inconsistent with the objectives of the Program.
- (c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program (including any action listed in Section I of Schedule 1 to this Agreement) in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) the *Contrato de Mandato* has been executed by the parties thereto; and
 - (b) The Bank is satisfied with the results achieved by the Borrower in the implementation of the Program and with the adequacy of the Borrower's macroeconomic policy framework.
- 5.02. The Additional Legal Matter consists of the following, namely that the Borrower (through separate legal opinions from SHCP and SEP) 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.
- 5.03. 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 November 11, 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.
- 6.02. Unless the Borrower's representative designated in Section 6.01 above otherwise informs the Bank, the Borrower's Address for the purposes of Section 10.01 of the General Conditions 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.

Facsímile: 011-52-55-3688-1216

6.03. The Bank's Address is:

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

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

The actions taken by the Borrower under the Program include the following:

1. The Borrower, through SEP, has established a National Upper Secondary Education System and established the institutional basis of said system, as evidenced by the State Agreements.
2. The Borrower, through SEP, has established the set of minimum competences by subject that students need to achieve by the end of upper secondary education in the National Upper Secondary Education System, as evidenced by Agreement 486, issued by SEP, and published in the Official Gazette on April 30, 2009.
3. The Borrower, through SEP, has established a national evaluation system for the National Upper Secondary Education System, as evidenced by the coordination guidelines agreed between the Borrower's Under-Ministry for upper secondary education and INEE dated July 24, 2009.
4. The Borrower, through SEP, in collaboration with UPN and ANNUIES, has developed an Upper Secondary Education Teacher Training Program (*Programa de Formación Docente de Educación Media Superior –PROFORDEMS*) which is benefiting teachers from all States, as evidenced by the execution agreement celebrated between SEP, ANUIES and CONALEP dated January 27, 2009 and a letter dated March 19, 2010 from SEP's Coordinator of Academic Development (in SEP's Under-Ministry for Upper Secondary Education) detailing the amount of teachers that have been certified in each State.
5. The Borrower, through SEP, has decided to establish a civil association (COPEEMS) to evaluate the entry of schools in the National Upper Secondary Education System, and has issued the guidelines for the by-laws of said civil association, as evidenced by Agreement No. 3 of the Borrower's Executive Committee for the National Upper Secondary Education System dated August 26, 2009.
6. The Borrower, through SEP, has consolidated its scholarship programs targeting poor students who are not covered by the *Oportunidades* Program or by any other scholarship program of the Borrower, as evidenced by the Borrower's SEP Agreement 479 published in the Official Gazette on December 31, 2008.

Section II. Availability of Loan Proceeds

- A. **General.** The Borrower may, or may cause NAFIN to withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

B. Allocation of Loan Amounts. The Loan (except for amounts required to pay the Front-end Fee and any Premia for Interest Rate Caps or Interest Rate Collars) is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

<u>Allocations</u>	<u>Amount of the Loan Allocated (expressed in Dollars)</u>	C.
Single Withdrawal Tranche	698,250,000	Withdrawal Tranche Release Conditions. No withdrawal
Front-end Fee	1,750,000	
Premia for Interest Rate Caps and Interest Rate Collars (amounts due under section 2.07 (c) of this Agreement)	0	
TOTAL AMOUNT	700,000,000	

shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program carried out by the Borrower; and (b) with the appropriateness of the Borrower's macroeconomic policy framework.

D. Deposits of Loan Amounts. Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

E. Excluded Expenditures. The Borrower shall use the proceeds of the Loan in accordance with its laws and shall not use them to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is December 31, 2010.

SCHEDULE 2

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

APPENDIX

Section I. Definitions

1. “ANUIES” means *Asociación Nacional de Universidades e Instituciones de Educación Superior de la República Mexicana, A.C.*, (National Association of Universities and Institutions for Tertiary Education of the Mexican Republic), a civil association constituted and registered under the laws of the Borrower.
2. “CONALEP” means *Colegio Nacional de Educación Profesional Técnica* (National School for Technical Education), a decentralized public entity of the Borrower, with separate legal personality, created by a Borrower’s Decree published in the Official Gazette on December 29, 1978 (as amended by an amendment dated November 22, 1993 published in the Official Gazette on November 22 1993 December 8, 1993).
3. “*Contrato de Mandato*” means the contract referred to in Section 3.02(a) of this Agreement.
4. “COPEEMS” means *Consejo para la Evaluación de la Educación Media Superior, A.C.* (National Council for the Evaluation of Upper Secondary Education), a civil association of the Borrower.
5. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
6. "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.

7. “INEE” means *Instituto Nacional para la Evaluación de la Educación*, the Borrower’s National Institute for the Evaluation of Education, a decentralized public entity of the Borrower, created through a Borrower’s Decree published in the Official Gazette on August 8, 2002.
8. “NAFIN” means *Nacional Financiera, S.N.C.*, a Mexican development bank serving as the Borrower’s financial agent for purposes of the Loan, or any successor thereto acceptable to the Bank.
9. “National Upper Secondary Education System” means the Borrower’s national upper secondary education system (*Sistema Nacional de Bachillerato*) created by Agreement 442, issued by SEP, and published in the Official Gazette on September 26, 2008.
10. “Official Gazette” means the *Diario Oficial de la Federación*, the Borrower’s official gazette.
11. “*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.
12. “Program” means the program of actions, objectives and policies designed to support the reform to the Borrower’s national upper secondary education system set forth in the letter dated March 18, 2010 from the Borrower to the Bank, which includes measures implemented by the Borrower during 2008 and 2009 (as described in Schedule 1, Section 1 to this Loan Agreement) declaring the Borrower’s commitment thereto.
13. “SEP” means *Secretaría de Educación Pública*, the Borrower’s Ministry of Public Education.
14. “SHCP” means *Secretaría de Hacienda y Crédito Público*, the Borrower’s Ministry of Finance and Public Credit.
15. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
16. “State” means any of the geopolitical subdivisions (*Estados*) of the Borrower.
17. “State Agreements” means (i) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Aguascalientes dated January 5, 2009; (ii) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Baja California Sur dated August 17, 2009; (iii) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Campeche dated May 11, 2009; (iv) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Chiapas dated February 23, 2009; (v) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Chihuahua dated July 13, 2009; (vi) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Coahuila dated February 27,

2009; (vii) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Colima dated February 10, 2009; (viii) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Durango dated August 26, 2009; (ix) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Mexico dated June 30, 2009; (x) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Guanajuato dated May 6, 2009; (xi) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Guerrero dated May 6, 2009; (xii) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Hidalgo dated September 2, 2009; (xiii) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Jalisco dated May 6, 2009; (xiv) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Michoacán dated September 1, 2009; (xv) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Morelos dated June 30, 2009; (xvi) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Nayarit dated May 20, 2009; (xvii) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Nuevo Leon dated August 12, 2009; (xviii) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Oaxaca dated September 15, 2009; (xix) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Puebla dated August 17, 2009; (xx) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Queretaro dated June 22, 2009; (xxi) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Quintana Roo dated September 7, 2009; (xxii) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of San Luis Potosi dated July 6, 2009; (xxiii) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Sinaloa dated August 25, 2009; (xxiv) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Sonora dated November 30, 2009, (xxv) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Tabasco dated August 26, 2009; (xxvi) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Tamaulipas dated August 25, 2009; (xxvii) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Tlaxcala dated May 21, 2009; (xxviii) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Veracruz dated May 20, 2009; (xxix) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Yucatan dated December 12, 2008; and (xxx) the agreement entered into between, among other parties, the Borrower, through SEP, and the State of Zacatecas dated May 6, 2009.

18. “UPN” means *Universidad Pedagógica Nacional* (National Pedagogic University), a public university of the Borrower.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 4 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

“Section 5.06. Plans; Documents; Records

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

Section 5.07. Program Monitoring and Evaluation

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. 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:

- (a) 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.”

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

“‘Eligible Expenditure’ means any use to which the Loan is put, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (c) The term “Financial Statements” and its definition are deleted in their entirety.
- (d) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”