

CONFORMED COPY

LOAN NUMBER 7038-ME

Loan Agreement

(Natural Disaster Management Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

BANCO NACIONAL DE OBRAS Y SERVICIOS PUBLICOS, S.N.C.

Dated December 15, 2000

LOAN NUMBER 7038-ME

LOAN AGREEMENT

AGREEMENT, dated December 15, 2000, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and BANCO NACIONAL DE OBRAS Y SERVICIOS PUBLICOS, S.N.C. (the Borrower).

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

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; 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) “CENAPRED” means the Guarantor’s *Centro Nacional de Prevención de Desastres* (National Disaster Prevention Center);

(b) “CNA” means the Guarantor’s *Comisión Nacional del Agua* (National Water Commission);

(c) “Ecology Law” means the Guarantor’s *Ley General del Equilibrio Ecológico y la Protección al Ambiente* (General Law for Ecological Balance and Protection of the Environment), published in the Guarantor’s *Diario Oficial de la Federación* (Official Gazette) on January 28, 1988, as amended to the date of this Agreement;

(d) “Eligible Categories” means categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(f) “Emergency Reconstruction Subproject” means an investment activity, for which Loan proceeds have or will be disbursed, consisting of a combination of works, use of goods and/or application of technical assistance, aimed at responding to damage caused by a natural disaster and meeting the criteria set forth in Section 3.05 (b) of the Guarantee Agreement;

(g) “Emergency Recovery Subproject” means an investment activity, for which Loan proceeds have been or will be disbursed, consisting of a combination of works, use of goods and/or application of technical assistance, aimed at responding to damage caused by a natural disaster and meeting the criteria set forth in Section 3.05 (a) of the Guarantee Agreement;

(h) “Federal Executing Agency” means SHCP, SEMARNAP, SCT, SAGAR, SEDESOL, CENAPRED, SS, SEP or CNA;

(i) “FONDEN Rules” means the *Acuerdo que Establece las Reglas de Operación del Fondo de Desastres Naturales* (Agreement Establishing the Rules for Operation of the Natural Disasters Fund), published in the Guarantor’s *Diario Oficial de la Federación* (Official Gazette) on February 29, 2000;

(j) “FONDEN Trust” means the trust established, pursuant to a trust agreement dated June 30, 1999 between the Guarantor as grantor and the Borrower as trustee, to administer funds to finance activities in response to natural disasters affecting Mexico;

(k) “Implementation Letter” means the letter of even date herewith, from the Guarantor to the Bank, containing indicators to be used in monitoring and evaluating implementation of the Project;

(l) “INE” means the Guarantor’s *Instituto Nacional de Ecología* (National Ecology Institute);

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

(n) “Participating States” means States which have as grantors entered into a trust agreement with the Borrower as trustee, to establish a trust to administer funds to finance activities in response to natural disasters affecting those States;

(o) “PCC” means the committee referred to in Section 3.04 (c) of the Guarantee Agreement;

(p) “PROFEPA” means the Guarantor’s *Procuraduría Federal de Protección al Ambiente* (Federal Environmental Protection Attorney’s Office);

(q) “Project Management Report” means each report prepared in accordance with Section 4.01 (d) of the Loan Agreement or Section 3.08 (d) of the Guarantee Agreement;

(r) “Resettlement Framework” means the resettlement rules and procedures set forth in a letter of even date herewith from the Guarantor to the Bank;

(s) “SAGAR” means the Guarantor’s *Secretaría de Agricultura, Ganadería y Desarrollo Rural* (Agriculture, Livestock and Rural Development Secretariat);

(t) “SCT” means the Guarantor’s *Secretaría de Comunicaciones y Transportes* (Communications and Transportation Secretariat);

(u) “SEDESOL” means the Guarantor’s *Secretaría de Desarrollo Social* (Social Development Secretariat);

(v) “SEGOB” means the Guarantor’s *Secretaría de Gobernación* (Interior Secretariat);

(w) “SEMARNAP” means the Guarantor’s *Secretaría de Medio Ambiente, Recursos Naturales y Pesca* (Environment, Natural Resources and Fisheries Secretariat);

(x) “SEP” means the Guarantor’s *Secretaría de Educación Pública* (Public Education Secretariat);

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

(z) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(aa) “SS” means the Guarantor’s *Secretaría de Salud* (Health Secretariat);

(ab) “State” means any of the states, and the *Distrito Federal* (Federal District), which constitute the United Mexican States;

(ac) “State Executing Agency” means a municipality of a Participating State or any agency of a Participating State or any agency of one of its municipalities, which carries out procurement under the Project;

(ad) “State Trust” means a trust established, pursuant to a trust agreement between a State as grantor and the Borrower as trustee, to administer funds to finance activities in response to natural disasters affecting the State;

(ae) “State Trust Agreement” means a trust agreement referred to in paragraphs (n) and (ad) of this Section; and

(af) “Subproject” means an Emergency Recovery Subproject or an Emergency Reconstruction Subproject.

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 four hundred four million fifty thousand Dollars (\$404,050,000), 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. 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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan, as well as in respect of the 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.

Section 2.03. The Closing Date shall be December 31, 2004 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1.0%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

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

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

Section 2.07. Interest and other charges shall be payable semiannually in arrears on June 1 and December 1 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.

ARTICLE III

Transfer of Loan Proceeds; Other Covenants

Section 3.01. The Borrower shall enter into, and comply with the terms of, contractual arrangements with the Guarantor, satisfactory to the Bank, providing, *inter alia*, for: (a) the transfer to the Guarantor of the proceeds of the Loan; and (b) the transfer by the Guarantor to the Borrower of such funds as the Borrower shall be required to pay to the Bank on account of principal, interest and other charges on the Loan. Except as the Bank may otherwise agree, the Borrower shall not amend or fail to enforce any provision of such contractual arrangements. The Borrower shall exercise its rights and carry out its obligations under such contractual arrangements in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

Section 3.02. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) shall be carried out, or caused to be carried out, by the Guarantor pursuant to Section 3.03 of the Guarantee Agreement.

Section 3.03. (a) The Borrower shall maintain, throughout the course of Project implementation, appropriate resources and mechanisms in place as required to carry out its obligations set forth in Sections 3.04 and 4.01 (a), (b) and (c) of this Agreement.

(b) By no later than one year after the Effective Date, the Borrower shall have implemented a training program for its relevant staff, satisfactory to the Bank, with regard to proper application of the procurement and consultant selection rules set forth or referred to in Schedule 1 to the Guarantee Agreement.

Section 3.04. (a) For each contract to be procured under the Project and proposed to be financed out of the proceeds of the Loan, which is not subject to prior review by the Bank pursuant to Part D.2 of Section I of Schedule 1 to the Guarantee Agreement or Part D.2 of Section II of Schedule 1 to the Guarantee Agreement, the Borrower shall: (i) carry out its own review of such procurement's compliance with the terms of Schedule 1 to the Guarantee Agreement; and (ii) submit to the Bank (as part of any Borrower application for withdrawals from the Loan Account) evidence of expenditures, incurred pursuant to such contract, only if the Borrower is satisfied as a result of its own review that the procurement in question complies with the terms of Schedule 1 to the Guarantee Agreement.

(b) For each contract procured under the Project pursuant to Part C.4 (b) and (c) of Section I of Schedule 1 to the Guarantee Agreement or Part C.2 of Section II of Schedule 1 to the Guarantee Agreement, the Borrower shall, promptly after the signing of each such contract, obtain from the relevant Federal Executing Agency or State Executing Agency a written justification for the use of direct contracting or single-source selection procedures in the awarding of the contract, which justification shall: (i) clearly establish a causal relationship between the relevant natural disaster (which disaster is the subject of a SEGOB declaration as indicated in Section 3.05 (a) (i) of the Guarantee Agreement) and the need for the contract; and (ii) be forwarded to the Bank by the Borrower (within six months from the end of the calendar quarter during which it was obtained), together with all such other justifications obtained by the Borrower during said quarter.

(c) At the conclusion of each calendar month during Project implementation, the Borrower shall inform INE and relevant State environmental authorities of all Subproject activities for which contracts were awarded during said month.

Section 3.05. The Borrower shall participate in the semi-annual and midterm reviews referred to in Section 3.09 (c) and (d) of the Guarantee Agreement, and shall throughout the course of Project implementation maintain a representative on the PCC.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system ((i) for itself; (ii) as trustee of the FONDEN Trust; and (iii) on behalf of State Executing Agencies through its role as trustee of the State Trusts), including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section (including those for the Special Account) for each fiscal year audited, in accordance with generally accepted auditing standards and procedures consistently applied, by independent and qualified auditors;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such financial statements, 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 each such report, a management letter concerning the Borrower's internal controls); and
- (iii) furnish 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 under the Project with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special 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 or Project Management Reports 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.

(d) (i) Without limitation upon the provisions of Section 4.01 (a), (b) and (c) of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of this Section in order to enable the Borrower, not later than October 31, 2001, or such later date as the Bank shall agree, to prepare quarterly Project management reports for the Project, acceptable to the Bank, each of which:

(A) (I) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (II) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(B) (I) describes physical progress in implementation of the Project, both cumulatively and for the period covered by said report; and (II) explains variances between the actual and previously forecast implementation targets for Parts A.1 and A.2 of the Project; and

(C) sets forth the status of procurement under the Project and

expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

- (ii) Upon the completion of the action plan referred to in paragraph (d) (i) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period for the Project.

(e) As part of the audits referred to in paragraph (b) of this Section, the Borrower shall have compliance with the terms of Schedule 1 to the Guarantee Agreement audited with respect to Parts A.1 and A.2 of the Project, and have the results of such audit presented to the Bank as part of the audit reports referred to in paragraph (b) (ii) (B) of this Section.

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 any of the following instruments shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of the Guarantor to perform any of its obligations under the Guarantee Agreement or the ability of the Borrower to perform any of its obligations under the Loan Agreement: (i) the Ecology Law and/or regulations thereunder; (ii) the FONDEN Rules; (iii) the trust agreement referred to in Section 1.02 (j) of this Agreement; and (iv) any State Trust Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that the event 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) that the contractual arrangements referred to in Section 3.01 of this Agreement have been entered into;

(b) that the Guarantor has established the PCC and the PCC's coordinator has been selected and is serving as such; and

(c) that the Operational Manual, satisfactory to the Bank, has been issued by SHCP.

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 contractual arrangements referred to in Section 3.01 of this Agreement have been duly authorized or ratified by the Borrower and the Guarantor, have been duly executed by them, and are legally binding upon the Borrower and the Guarantor in accordance with their terms.

Section 6.03. The date March 15, 2001, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The *Director General* of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

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

Cable address:	Telex:
INTBAFRAD	248423 (MCI); or
Washington, D.C.	64145 (MCI)

For the Borrower:

Banco Nacional de Obras y Servicios Públicos, S.N.C.
Tecoyotitla 100
Colonia Florida
01030 México, D.F.
México

Cable address:	Telex:	Facsimile:
BANTECARIOBROSME 01772619	011-52-5-	
Mexico City	Mexico City	723-6291

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ David de Ferranti

Regional Vice President
Latin America and the Caribbean

BANCO NACIONAL DE OBRAS
Y SERVICIOS PUBLICOS, S.N.C.

By /s/ Tomás Ruiz González

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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) For Emergency Recovery Subprojects:		
(a) goods	78,000,000	85%
(b) works	83,000,000	60%
(c) consultant services	15,000,000	100%
(2) For Emergency Reconstruction Subprojects:		
(a) goods	67,000,000	85%
(b) works	73,000,000	60%
(c) consultant services	15,000,000	100%

(3)	Goods under Part B of the Project	60,009,500	85%
(4)	Consultants' services and training under Part B of the Project	9,000,000	100%
(5)	Fee	4,040,500	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
	TOTAL	404,050,000	

2. 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 to exceed \$80,000,000, may be made on account of payments made for expenditures incurred within the twelve months prior to the date of this Agreement.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for contracts not subject to prior review under Part D.2 of Section I of Schedule 1 to the Guarantee Agreement, as well as for contracts not subject to prior review under Part D.2 of Section II of Schedule 1 to the Guarantee Agreement, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

4. For purposes of this Schedule, the term "training" means fees of trainers, provision of training materials, rental of training equipment and rooms, and reasonable travel and *per diem* expenses of trainees.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in *Banco de México* on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.01 (d) (ii) of this Agreement; and (ii) a request from the Borrower for all withdrawals to be made on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.01 (d) (ii) of this Agreement, accompanied by a request from the Borrower for all withdrawals

to be made on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.01 (d) (i) of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower or the Guarantor shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement and Section 3.08 (b) (ii) of the Guarantee Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Sections in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not Made
On the Basis of Project Management Reports

1. For the purposes of this Annex the term “Authorized Allocation” means the amount of \$27,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan 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 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.

Annex B
to
SCHEDULE 1

**Operation of Special Account
When Withdrawals Are Made
On the Basis of Project Management Reports**

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.
2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the amount of \$80,000,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to reduce human, economic and financial costs of natural disasters in Mexico by (a) providing for prompt recovery measures after a natural disaster and (b) reducing the vulnerability of infrastructure to natural forces by supporting the Guarantor's disaster impact prevention and recovery policies and institutional reforms and improving the Guarantor's capacity for analyzing natural disaster risk.

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: Natural Disaster Response Investments

1. Carrying out of Emergency Recovery Subprojects.
2. Carrying out of Emergency Reconstruction Subprojects.

Part B: Prevention Studies and Capacity Building Activities

1. Carrying out of analytical, design and policy studies, and provision to the Federal Executing Agencies of goods, technical assistance and training, to determine means (such as reduction of vulnerability of public infrastructure to natural forces and identification and design of priority disaster impact prevention investments) of preventing economic and human losses in the event of future natural disasters.
2. Carrying out of studies, and provision to the Federal Executing Agencies of goods, technical assistance and training, to strengthen their ability to respond in an environmentally and socially sound manner to losses caused by natural disasters, use insurance and other risk transfer instruments to deal with natural disaster risk and conduct monitoring and evaluation of disaster response and damage prevention activities.

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The Project is expected to be completed by June 30, 2004.

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 June 1 and December 1 Beginning June 1, 2006 through December 1, 2015	5.00%

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.

