

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

December 18, 2002

Act. Alonso García Tames
Director General de Crédito Público
Secretaría de Hacienda y Crédito Público
Palacio Nacional, Patio Central, piso 3 oficina 3010
06066 México, D.F.
México

Re: Loan 7108-ME (Basic Education Development Project-
Phase II) Amendment to the Loan Agreement

Dear Sir:

We refer to the Loan Agreement between International Bank for Reconstruction and Development (the Bank) and United Mexican States (the Borrower) dated September 30, 2002, with respect to the above-captioned Project. Terms not otherwise defined herein shall have the meanings assigned to them in the Loan Agreement.

Following the request made by Nacional Financiera S.NC. in its letter dated November 13, 2002, acting as financial agent of the Borrower under this Project, we hereby propose to amend Schedule 1, paragraph 3 of the Loan Agreement as follows:

“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 to exceed eighty million dollars (\$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 (September 30, 2002) but after November 1, 2001.”

As a consequence of the amendment referred in the above paragraph, the Loan Agreement shall read in its entirety as set forth in the attachment to this letter.

Please confirm your agreement to said amendment by signing and dating the two originals of this letter in the space provided below, and returning one to us. This amendment shall enter into effect as of its date first above written, upon receipt by the Bank of one original of this letter signed by you.

Sincerely yours,

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Isabel Guerrero
Director
Country Management Unit
Colombia, Mexico and Venezuela

AGREED:

UNITED MEXICAN STATES

By: /s/ Alonso García Tamés
Authorized Representative

Date: December 18, 2002

Attachment

LOAN NUMBER 7108-ME

Loan Agreement

(Basic Education Development Project – Phase II)

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

**Dated September 30, 2002
(as amended on December 18, 2002)**

LOAN NUMBER 7108-ME**LOAN AGREEMENT**

AGREEMENT, dated September 30, 2002, as amended on December 18, 2002, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and UNITED MEXICAN STATES (the Borrower), represented by its signatory on page 15 of this Agreement.

WHEREAS: (A) the Bank has received from the Borrower a letter dated April 28, 1998, which letter describes the Borrower's policies and strategies (the Program) with respect to the basic education sector in Mexico;

(B) the Borrower has requested that the Bank support the Program through a series of loans to the Borrower over a period of approximately nine years;

(C) on October 4, 1998, NAFIN (as defined below) and the Bank entered into a loan agreement, and the United Mexican States and the Bank entered into a guarantee agreement, to finance the first phase of the Program; and

(D) the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms part of the second phase of the Program, has requested the Bank to assist it 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, in support of the second phase of the Program, 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) "Basic Education" means pre-school (i.e., four and five year-old children), primary (i.e., grades 1 through 6) and lower-secondary (i.e., grades 7 through 9) education levels;

(b) “CONAFE” means the Borrower’s National Council for Educational Development (*Consejo Nacional de Fomento Educativo*);

(c) “FMR” means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;

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

(e) “Loan 3407-ME” means the loan governed by an agreement entered into between NAFIN and the Bank on October 14, 1991 (as amended);

(f) “Loan 3722-ME” means the loan governed by an agreement entered into between NAFIN and the Bank on June 30, 1994 (as amended);

(g) “Loan 4333-ME” means the loan governed by an agreement entered into between NAFIN and the Bank on October 4, 1998 (as amended);

(h) “NAFIN” means *Nacional Financiera, S.N.C.*, the financial agent of the Borrower;

(i) “Operational Manual” means the manual referred to in Section 3.04 of this Agreement;

(j) “Parents’ Associations” means any one of the Parents’ Associations (*Asociaciones de Padres de Familia*) referred to in the Borrower’s 1993 General Education Law (*Ley General de Educación*, published in the Borrower’s *Diario Oficial de la Federación* (Official Gazette) on July 13, 1993 (as amended)), associated with a particular Project Public School;

(k) “Participation Agreement” means an agreement (*Convenio de Coordinación*) entered into between CONAFE and a State pursuant to Section 3.05 of this Agreement;

(l) “Project Public School” means a State-administered school in which all or some basic education (pre-school and grades 1 through 9) level classes are held;

(m) “School Council” means any one of the Social Participation School Councils (*Consejos Escolares de Participación Social*) referred to in the Borrower’s 1993 General Education Law (*Ley General de Educación*, published in the Borrower’s *Diario Oficial de la Federación* (Official Gazette) on July 13, 1993 (as amended)), associated with a particular Project Public School;

(n) “School Grant” means any of the grants of up to \$2,000 equivalent per year to be given to School Councils or Parents’ Association under Part A.4 of the Project for: (i) repairs and rehabilitation; (ii) minor infrastructure improvements; and (iii) school management activities but not strict routine school maintenance activities;

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

(p) “SEPE” means a State’s Public Education Secretariat (*Secretaría de Educación Pública Estatal*) or equivalent;

(q) “SHCP” means the Borrower’s Secretariat of Finance and Public Credit (*Secretaria de Hacienda y Crédito Público*);

(r) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(s) “State” means the Federal District (*Distrito Federal*) and any of the other thirty one geopolitical subdivisions (*Estados*) of the Borrower;

(t) “State Plan” means each of the annual plans for implementation of initial, pre-school, primary or lower-secondary public education initiatives in a State, which plans are prepared by the State and include, *inter alia*, the indicators and schedules for implementation of Part A of the Project within such State as well as the associated procurement plan;

(u) “UCE” means a CONAFE State Project Coordination Unit (*Unidad Coordinadora Estatal*); and

(v) “UPC” means CONAFE’s General Unit for Compensatory Programs (*Unidad de Programas Compensatorios*).

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 three hundred million Dollars (\$300,000,000), 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 and through NAFIN, open and maintain in Dollars a separate special deposit account in *Banco de México* on terms and conditions satisfactory to the Bank. 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, 2004 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. The Borrower agrees that 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: (a) 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 (b) 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 other 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) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower and the Bank hereby agree that unless otherwise notified by the Borrower in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(d) 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 as set forth in Schedule 2 to this Agreement, and to this end, shall provide promptly as needed, the funds, facilities, services and other resources required for the Project, and shall cause CONAFE to carry out the Project, in coordination with SEP, SEPEs, States, School Councils, Parents' Associations and municipalities, with due diligence and efficiency and in conformity with appropriate educational, financial, environmental, technical and administrative standards and practices, as well as in accordance with the Operational Manual and the monitoring indicators set forth in the Implementation Letter.

Section 3.02. (a) 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.

(b) Throughout the course of Project implementation, the Borrower shall cause CONAFE to maintain or cause to be maintained, in a manner satisfactory to the Bank, an annually adjustable data base of regionalized reference prices to serve as a reference for Project procurement costing in those cases where direct contracting is allowed for goods.

Section 3.03. The Borrower shall not use Loan proceeds to finance student supplies, teachers' incentives or any other non-incremental recurrent costs as already financed by the Bank pursuant to Loan 3407-ME, Loan 3722-ME or Loan 4333-ME.

Section 3.04. (a) Without prejudice to the provisions related to Project implementation set forth in this Agreement including, but not limited to, Section 3.01, the Borrower shall cause CONAFE to issue and carry out the Project in accordance with an operational manual satisfactory to the Bank, which shall include, inter alia: (i) special provisions to address the needs of indigenous peoples, as provided for in Section 3.09 of this Agreement; (ii) the norms of operation of the fund described under Part B.5 of the Project, including the criteria to be used by CONAFE in the selection of the projects presented by the States and monitoring and evaluation arrangements; (iii) specific prohibition of construction of new schools, application of simple environmental design specifications for the rehabilitation of existing schools, and environmental guidelines for construction activities (e.g. materials procurement to avoid asbestos and lead paint, avoid use of scarce timber sources to be minimized, proper solid and liquid waste disposal practices to be applied); (iv) the model form for Participation Agreements; (v) the model forms for the agreements to be entered into between CONAFE and the relevant State, municipality, School Council or Parents' Association, for the execution of Parts A.1; and (vi) the model forms for the agreements to be entered into between CONAFE and the relevant School Council or Parents' Association for the execution of Part A.4 of the Project.

(b) The Borrower shall not amend the Operational Manual without the Bank's approval.

(c) 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.

(d) With regard to Part B.5 of the Project, and notwithstanding the provisions set forth in paragraph (a) (ii) above, the Borrower shall cause CONAFE to implement said part of the Project in accordance with CONAFE's January 22, 2002 letter to the Bank and, in addition: (a) Part B.5 of the Project shall not involve financing of civil works or operating cost expenditures; and (b) Part B.5 of the Project shall only involve financing of activities from among the eligible

list set forth in the above-cited letter, which are contemplated in a State Plan, which plan is in effect at the time of said financing.

Section 3.05. The Borrower shall cause CONAFE to enter into a separate Participation Agreement, satisfactory to the Bank, with each of the States, whereby:

(a) CONAFE shall provide or cause to be provided, in a timely manner as needed, the funds, goods and/or services required for implementing the Project within each State, including: (i) the staffing of the relevant UCE throughout the course of Project implementation, with personnel in numbers and with experience and qualifications sufficient to carry out the coordination of activities between CONAFE and each State; and (ii) the provision of funds required by States, municipalities and School Councils, Parents Associations for Parts A.1 and A.4 of the Project;

(b) the State shall:

- (i) carry out, or assist CONAFE in carrying out, the Project within such State as detailed in the applicable annual State Plans;
- (ii) assist CONAFE to allow full compliance with the obligations set forth in Section 3.04 of this Agreement;
- (iii) participate in each of the annual reviews referred to in Section 3.10 of this Agreement; and
- (iv) abide by all applicable Project provisions laid out in this Agreement.

Section 3.06. The Borrower, through CONAFE shall:

(a) coordinate Project implementation through the UPC, such UPC to be staffed throughout the course of Project implementation with personnel in sufficient numbers and with experience and qualifications satisfactory to the Bank;

(b) with the collaboration of the relevant UCE, maintain records and separate accounts adequate to reflect, in accordance with sound accounting practices, the funds and other resources it (and/or any State, municipality, Parents' Association or School Council therein) has received, allocated and/or spent in connection with the Project;

(c) carry out, and/or cause any State, municipality, Parents Association or School Council therein to carry out, procurement (with funds received for Parts A.1 and A.4 of the Project) solely in accordance with the relevant provisions of Schedule 4 to this Agreement; and

(d) cooperate fully with NAFIN so as to allow NAFIN to comply with NAFIN's obligations referred to in this Agreement.

Section 3.07. (a) The Borrower shall cause CONAFE to carry out Part A of the Project in accordance with the relevant State Plans prepared by each State, which plans shall be satisfactory to CONAFE and in accordance with the provisions of this Agreement.

(b) Public schools of a given level (such as primary or lower secondary) in a State shall be covered by Part A of the Project in accordance with the targeting criteria set forth in the Operational Manual.

Section 3.08. (a) The Borrower shall cause CONAFE to cause the relevant State, municipality and/or School Council and Parents' Associations, and under technical supervision by the relevant SEPE, to carry out all works and furnishing under Part A.1 and A.4 (a) of the Project (which works and furnishing shall not cost more than \$350,000 equivalent per contract or per bid package) in accordance with technical criteria and general guidelines acceptable to the Bank.

(b) The Borrower shall cause CONAFE to enter into agreements – in accordance with the model set forth in the Operational Manual - with States, municipalities, School Councils or Parents' Associations, for the execution of Part A.1 and A.4 of the Project.

(c) In order for a School Council or Parents' Association to participate in the carrying out of Parts A.1 and A.4 of the Project: (i) the School Council or Parents' Association shall have been established and registered with separate legal personality of its own; (ii) the School Council's or Parent Association's existence, registration and legal personality shall be maintained throughout the course of its participation in the Project; and (iii) the School Council or Parents' Association shall have entered into, and be in compliance with, an agreement with the relevant State whereby, in exchange for deposits by the State of non-Loan proceeds (obtained from CONAFE) in a bank or other account controlled by the School Council or the Parents' Association, said School Council or Parents' Association agrees to use such proceeds solely for purposes of Parts A.1 and A.4 of the Project, to abide by the relevant terms of Schedule 4 to this Agreement and to allow audits and revision of records by, or on behalf of, CONAFE and the relevant State of the use of such proceeds.

Section 3.09. With regard to Project components which affect indigenous communities, the Borrower, through CONAFE, shall ensure that such communities, through School Councils, Parents' Associations or otherwise, participate systematically in the implementation, monitoring and evaluation of said parts of the Project. Such monitoring and evaluation shall include beneficiary assessments, and the Borrower shall cause the results of such monitoring and evaluation to be made publicly available in a timely manner once such results are generated.

Section 3.10. (a) Throughout the course of Project implementation, and without limitation of the provisions of Section 9.07 of the General Conditions, the Borrower shall cause CONAFE to, in a form satisfactory to the Bank, furnish to the Bank on October 31, 2002 and October 31, 2003 an annual progress report on the implementation of the Project (based on the indicators set forth in the Implementation Letter) as well as proposed State Plans for the immediately subsequent fiscal year.

(b) The Borrower shall participate, and shall cause CONAFE, each State and NAFIN to participate, in annual reviews of Project implementation to be held in conjunction with the Bank and the Borrower on November 30, 2002 and November 30, 2003 or any subsequent date as may be agreed upon between the Borrower and the Bank. Each such review shall, based inter alia on the reports and proposed State Plans referred to in paragraph (a) of this Section:

- (i) examine the status of Project implementation;
- (ii) examine the status of implementation of the Program; and

- (iii) result in the: (A) finalization of definitive State Plans for the immediately subsequent fiscal year; and (B) preparation by CONAFE of an annual action plan, satisfactory to the Bank, consolidating all State Plans and including CONAFE's plan for those Parts of the Project not covered by the State Plans, which action plan the Borrower shall cause to be carried out during the immediately subsequent fiscal year.

Section 3.11. For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, the Borrower, through CONAFE, shall:

- (a) prepare or cause to be prepared, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before 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.

Section 3.12. The Borrower shall cause CONAFE to ensure that each Participation Agreement be duly authorized or ratified by, and executed and delivered by, CONAFE and each State and be legally binding upon CONAFE and each State in accordance with the relevant Participation Agreement's terms.

Section 3.13. The Borrower shall - through SHCP- enter into an agreement with NAFIN and CONAFE, satisfactory to the Bank, for the execution of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall 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 cause NAFIN to :
 - (i) have 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 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; 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 with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall cause CONAFE 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, 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.

(d) The Borrower shall cause CONAFE 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.

(e) The Borrower shall cause CONAFE to:

- (i) have the records and accounts referred to in paragraph (d) of this Section for each fiscal year audited (including, specifically, an audit - satisfactory to the Bank - of the works executed pursuant to Part C.3.(a) of Schedule 3 to this Agreement), 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 (d) 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; and

- (iii) furnish to the Bank such other information concerning said records and accounts as well as the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Article III (including Section 3.10) of this Agreement, the Borrower shall cause NAFIN to prepare in accordance with guidelines acceptable to the Bank and cause NAFIN to furnish to the Bank a financial monitoring report, in form and substance acceptable 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 planned and actual 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 actual and planned 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 quarter 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 quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 CONAFE and put into effect;
- (b) technical criteria and general guidelines (satisfactory to the Bank) for civil work contracts to be used under Parts A.1 of the Project have been adopted by CONAFE; and
- (c) the agreement between the Borrower, NAFIN and CONAFE referred to in Section 3.13 of this Agreement shall have been entered into.

Section 5.02. The date December 30, 2002, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The *Director General de Crédito Público* of the Borrower's SHCP is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. 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
Washington, D.C.

248423 (MCI)
64145 (MCI)

Facsimile: (202) 477-6391

For the Borrower:

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

Telex:

1777313-SHOCME

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ James D. Wolfensohn
Authorized Representative

UNITED MEXICAN STATES

By /s/ Francisco Gil Díaz
Authorized Representative
Secretariat of Finance and Public Credit

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 (except as covered by Category (4) below)	70,000,000	75%
(2) Goods (except as covered by Category (4) and (5) below)	43,300,000	75%
(3) Consultants' services and Training (except as covered by Categories (4) and (6) below, including incentives to technical pedagogic assistants)	109,000,000	75%
(4) School Grants under Part A.4 of the Project	55,000,000	84%
(5) Student Supplies	7,000,000	25%
(6) Teacher incentives	2,000,000	10%
(7) Incremental Operational Costs	4,700,000	10%
(8) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (d) of this Agreement

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(9) Front-end Fee	3,000,000	Amount due under Section 2.04 of this Agreement
(10) Unallocated	6,000,000	
TOTAL	<u><u>300,000,000</u></u>	

2. For the purposes of this Schedule:

(a) “Training” means the reasonable costs related to the carrying out of workshops, seminars and other pedagogic events under the Project (other than for school children) including equipment and facility rental, printed materials, travel and per diems (the latter two when not covered under Incremental Operating Costs);

(b) “Student Supplies” means the reasonable cost of students basic consumable items such as pens, pencils, notepads, erasers or rulers;

(c) “Teacher Incentives” means the reasonable cost of performance incentives to primary education teachers referred to in Part A (c) of the Project; and

(d) “Incremental Operational Costs” means reasonable costs under the Project for salaries of temporary staff, office supplies and utilities, office and equipment rental, and travel and per diem costs (not covered under Training) that would have not been incurred absent the Project.

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 to exceed eighty million dollars (\$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 (September 30, 2002) but after November 1, 2001.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than \$350,000 equivalent each; (b) goods (including Student Supplies) under contracts costing less than \$500,000 equivalent each with the exception of the first three contracts awarded under Part C.1 of Schedule 4 to this Agreement; (c) consulting services provided by firms under contracts costing less than \$100,000 equivalent each; (d) consulting services provided by individuals under contracts costing less than \$50,000 equivalent each; (e) Training; (f) School Grants; (g) Pilot School Grants; (h) Teacher Incentives; and (i) Incremental Operational Costs; all of these, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) consolidate and expand to all States of the Borrower quality improvements in public initial education and Basic Education; (b) consolidate the organization and management of public initial education and Basic Education, and integrate within said education levels the operation of the Borrower's compensatory education program; (c) implement a fund to support innovative education projects in the States; and (d) continue strengthening the States' institutional capacity to plan, program and evaluate the delivery of basic education services.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree from time to time to achieve such objectives:

Part A: Quality improvements in public initial education and Basic Education

1. (a) Construction and furnishing of new classrooms within, and ancillary education facilities (including laboratories, workshops, sanitary installations, supervision offices and warehouses) to, existing Project Public Schools, and rehabilitation and furnishing of existing Project Public School facilities, to meet minimum operating standards and the expanding enrollment in Basic Education.

(b) Rehabilitation, refurbishing and provision of equipment for teacher training centers to facilitate in-service training of teachers.

2. (a) Provision to parents of didactic materials to be used in initial education (i.e., education of children up to 4 years of age), as well as provision of such materials to trainers who teach such parents how to carry out initial education activities.

(b) Provision to Project Public Schools of teaching and learning materials (including learning materials for teacher training centers), and student supplies.

(c) Provision to Project Public Schools, of computer equipment and software to be used in the Borrower's *Telesecundaria* distance learning program, as long as such computer equipment and software has not been provided to any such Project Public School under the projects supported by Loan 3722-ME or Loan 4333-ME.

3. (a) Training of trainers referred to in Part 2 (a) above, and training of school technical pedagogic assistants, in new pedagogic methods aimed at improving the quality of Basic Education in Project Public Schools.

(b) Provision of incentives to technical pedagogic assistants to cover travel and subsistence expenses while they provide training and support to teachers who work in Project Public Schools that offer primary education.

(c) Provision of performance incentives to primary education teachers working at Project Public Schools, to motivate their full attendance and enhance their teaching performance.

4. Strengthening of Project Public School management through: (a) the provision of grants to Parents' Associations for school repairs and rehabilitation, minor infrastructure improvements, and related school management activities; (b) the provision of grants for pilot projects (to be financed with counterpart funds) to Parents' Associations for school refurbishing and maintenance, minor infrastructure improvements, related school management activities and student supplies; and (c) the provision of financial management training to Parents' Associations to facilitate their administration of the grants mentioned under (a) and (b) above.

5. Strengthening of supervision of teachers in Project Public Schools through the provision of *per diems* to supervisors and sector chiefs that have not received *per diems* under the project supported by Loan 4333-ME to increase the number and depth of supervisory visits to individual Project Public Schools that offer primary education.

Part B: Institutional Strengthening

1. Provision of technical assistance and training to: (a) expand the Borrower's nationwide database for primary and lower-secondary education, through periodic testing of students benefiting from the Project and from the project financed under Loan 4333-ME; (b) identify the characteristics of the supply and demand for education at the pre-school, primary and lower-secondary levels; and (c) disseminate information on the learning achievements of the students targeted by the Project.

2. Consolidation of the Borrower's nationwide school mapping system through: (a) further development of the Borrower's geographic and cartographic platform; (b) validation of the SEP-INEGI (*Instituto Nacional de Estadística, Geografía e Informática*, the Borrower's National Institute of Statistics, Geography and Informatics) catalog of population settlements; (c) updating of information on all States using satellite images; (d) improvements in the use of information for planning purposes at the federal and State level; (e) integration of a digital topographic model in the Borrower's educational cartography; (f) expansion of the Borrower's national education database by including architectural information on schools; (g) introduction of appropriate software to link topographic information to the Borrower's education planning process; and (h) training of officials in each State to operate and further develop the Borrower's school mapping system.

3. Carrying out the following studies: (a) development of a database to evaluate the impact of the initial education program; (b) evaluation of the success of Part A.3 of the Project; and (c) diagnosis of problems affecting public basic education schools in marginalized sectors within major urban areas, aimed at identifying compensatory interventions appropriate to such city.

4. Provision of technical assistance to the States to: (a) develop the organization and operation of basic education services and to implement programs defined by the SEP; and (b) support State initiatives to improve effectiveness in the design and implementation of basic education policies defined by the SEP, provide for their continual evaluation, ensure the efficient and transparent use of public funds, and promote the integration of basic education levels in terms of planning, supervision and service delivery.

5. Provision of technical assistance and training through a *Fondo de Innovación de Educación Básica* (Basic Education Innovation Fund) to support State initiatives to improve the quality of basic education and to adapt education programs to the needs of each State.

6. (a) Nationwide integration of compensatory education programs; (b) monitoring and evaluation of the Project; (c) strengthening of State Project administration units through training in planning, programming, procurement, monitoring and reporting; and (d) provision of technical assistance and administrative support for Project management including payment of salaries and benefits for incremental administrative personnel at the federal and State level, travel expenses for officials in charge of Project administration, office equipment and materials, rent and utilities.

* * *

The Project is expected to be completed by December 31, 2003.

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 (Expressed as a %)</u>
On each March 15 and September 15	
Beginning September 15, 2007 through March 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 WorksPart A: General

Goods 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 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*).

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. Limited International Bidding

Optical reading test forms (goods) estimated to cost up to \$2,000,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent, which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Goods estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$20,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

Works estimated to cost less than \$10,000,000 per contract, up to an aggregate amount not to exceed \$11,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International or National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract up to an aggregate amount of \$2,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Community Participation

(a) Works estimated to cost less than \$350,000 equivalent per contract, up to an aggregate amount of \$50,000,000 equivalent required to rehabilitate and expand schools under Parts A.1 and A.4 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.

(b) Goods estimated to cost less than \$2,000 equivalent per contract, up to an aggregate amount of \$10,000,000 equivalent required for school management and rehabilitation activities under Part A.4 of the Project shall be procured in accordance with procedures acceptable to the Bank, which procedures may include direct contracting if contract prices are consistent with the regionalized reference prices determined by the Borrower pursuant to Section 3.02 (b) of this Agreement.

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 and works 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

(a) With respect to: (i) each contract for goods and works procured pursuant to Part B above; (ii) each contract for optical reading test forms (goods) procured pursuant to Part C.1 above; (iii) each contract for works estimated to cost \$350,000 equivalent or more procured pursuant to Section C.2 above; and (iv) the first three contracts for goods procured pursuant to Section C.2 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first three contracts for works to be procured in accordance with the procedures referred to in Part C.4 above, the following procedures shall apply.

- (i) prior to the execution of any contract, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) 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, 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

Services of a standard or routine nature for training and seminars under Parts A.3, B.1, B.2, B.4, and B.5 of the Project estimated to cost less than \$100,000 equivalent per contract, and up to an aggregate of \$1,500,000 equivalent, 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

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines 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.

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 the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 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.

SCHEDULE 5**Special Account**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (3), (4), and (5) 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, works 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 \$30,000,000 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 \$10,000,000 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 \$20,000,000.

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.