

**CONFORMED COPY**

**LOAN NUMBER 7249-ME**

# **Loan Agreement**

**(Basic Education Development Project – Phase III)**

**between**

**UNITED MEXICAN STATES**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated October 1, 2004**

## LOAN NUMBER 7249-ME

### LOAN AGREEMENT

AGREEMENT, dated October 1, 2004 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;

(D) on September 30, 2002, the Borrower and the Bank entered into a loan agreement to finance the second phase of the Program; and

(E) 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 third 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 third 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 (as amended through May 1, 2004) with the following modification (the General Conditions) constitute an integral part of this Agreement:

The text in Section 5.01 which reads: “(a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b)” is deleted in its entirety.

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., three through 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 Agreement” means the agreement between the Borrower, CONAFE and NAFIN referred to in Section 3.04 of this Agreement;

(e) “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 the implementation of the Project;

(f) “Initial Education” means the training of parents of children of ages 0 to 4 or expecting their first child;

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

(h) “Operational Manual” means the manual referred to in Section 3.03 of this Agreement;

(i) “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 to the date of this Agreement)), associated with a particular Project Public School;

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

(k) “Procurement Plan” means the Borrower’s procurement plan, dated April 21, 2004 (and updated on July 2, 2004) covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(l) “Project Public School” means a State-administered school in which all or some Basic Education level classes are held, identified as a targeted school pursuant to the criteria set forth in the Operational Manual;

(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 to the date of this Agreement), associated with a particular Project Public School;

(n) “School Grant” means any of the grants of up to \$700 equivalent per year to be given to Parents’ Association under Part B.4 (a) of the Project for: (i) repairs and rehabilitation; (ii) minor infrastructure improvements; and (iii) supplementary educational materials;

(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 (*Secretaría de Hacienda y Crédito Público*);

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

(s) “State” means any of the thirty one geopolitical subdivisions (*Estados*) of the Borrower;

(t) “State Proposal” means each of the annual proposals to be presented by each of the States to CONAFE for the implementation of Part B of the Project;

(u) “UCE” means, for each State, the relevant Basic Education Coordination Unit and the relevant Initial Education 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 cause NAFIN to open and maintain in Dollars a separate special deposit account on the Borrower’s behalf either: (i) in *Banco de México* on terms and conditions satisfactory to the Bank; (ii) in NAFIN on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment; or (iii) in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2007 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

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

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

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on May 1 and November 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.

Section 2.10. The *Director Internacional* 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, social, 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall cause CONAFE to update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

(c) 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 reference prices of the same technical quality to serve as a reference for Project procurement costing in those cases where direct contracting is allowed for goods.

Section 3.03. (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) 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, minimize use of scarce timber sources, proper solid and liquid waste disposal practices to be applied); (iii) the targeting criteria for the schools and communities that will benefit from the Project; (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 Part B.1 of the Project; and (vi) the model forms for the agreements to be entered into between CONAFE and the relevant Parents' Association for the execution of Part B.4 (a) 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.

Section 3.04. (a) The Borrower, through SHCP, shall enter into an agreement (*Contrato de Mandato*) with CONAFE and NAFIN, satisfactory to the Bank (the Implementation Agreement), in which agreement:

- (i) CONAFE shall agree to carry out the Project and coordinate the participation of the Borrower (through SEP) in the Project (including the carrying out of Part C.3 (b) and the collaboration in the carrying out of Part C.3 (d) (vi), C.3 (d) (ix) and C.3 (d) (x) of the Project); and
- (ii) NAFIN shall agree to: (i) represent the Borrower vis-à-vis the Bank for purposes of submitting Loan withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Borrower of Loan proceeds; (ii) represent the Borrower vis-à-vis CONAFE for purposes of supervising the overall execution of the Project; (iii) maintain and operate the Special Account in compliance with the terms of this Agreement; (iv) ensure that the obligations set forth in Article IV of this Agreement are complied with as pertain to the Special Account (and, to that effect, shall agree to provide the relevant information to CONAFE); and (v) participate in the periodic reviews referred to in Section 3.10 (b) of this Agreement.



(b) The Borrower shall exercise its rights and carry out its obligations under the Implementation Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Implementation Agreement or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Implementation Agreement, the terms of this Agreement shall prevail. The Borrower shall promptly inform the Bank of any condition which interferes or threatens to interfere with the performance of the Borrower, CONAFE or NAFIN of their respective obligations under the Implementation Agreement.

Section 3.05. The Borrower shall cause CONAFE to enter into a separate agreement, satisfactory to the Bank and following the model form included in the Operational Manual, 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, School Councils and Parents' Associations for Parts B.1 and B.4 (a) of the Project;

- (b) the State, through the relevant UCE, shall:
- (i) carry out, or assist CONAFE in carrying out, the Project within such State as detailed in the applicable annual State Proposals;
  - (ii) assist CONAFE to allow full compliance with the obligations set forth in the CONAFE 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 shall cause CONAFE to enter into the following agreements, which agreements shall be satisfactory to the Bank and shall follow the model form included in the Operational Manual, through the relevant UCE:

(a) agreements with Parents' Associations to regulate the Parents' Associations' execution of Parts B.1 and B.4 (a) of the Project;

(b) agreements with individual teachers to regulate the performance incentives to primary education teachers referred under Part B.5 of the Project (including the supervision of said incentives by the relevant school's Parents' Association);

(c) agreements with supervisors and sector chiefs to regulate the travel cost and per diem support provided by CONAFE under Part B.6 of the Project; and

(d) agreements with education promoters, module supervisors and zone coordinators to regulate said promoters, supervisors and coordinators execution of Part A of the Project.

Section 3.07. The Borrower shall cause CONAFE to:

(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 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 B.1 and B.4 (a) of the Project) solely in accordance with the relevant provisions of Schedule 4 to this Agreement;

(d) carry out Part B of the Project taking into consideration the relevant State Proposal prepared by each State, which proposal shall be in accordance with the provisions of this Agreement; and

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

Section 3.08. (a) The Borrower shall cause CONAFE to enter into agreements – in accordance with the model set forth in the Operational Manual- with the relevant State, municipality, School Council and/or Parents' Associations, under which agreements, the relevant State, municipality, School Council and/or Parents' Associations shall agree to carry out all works under Part B.1 of the Project under the technical supervision of the relevant State and in accordance with technical criteria and general guidelines acceptable to the Bank.

(b) In order for a School Council or Parents' Association to participate in the carrying out of Parts B.1 and B.4 (a) 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 Parents' 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 CONAFE (through the relevant UCE) whereby, in exchange for deposits by CONAFE of funds 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 B.1 and B.4 (a) of the Project, to abide by the relevant terms of Schedule 4 to this Agreement and to allow audits and review of records by, or on behalf of, CONAFE 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 March 30 of each year a progress report on the implementation of the Project (based on the indicators set forth in the Implementation Letter) and the proposed action plan for the immediately subsequent fiscal year.

(b) The Borrower shall participate, and shall cause CONAFE, and NAFIN to participate, in bi-annual reviews of Project implementation to be held in conjunction with the Bank and the Borrower on March 30 and November 20 of each year or any subsequent date as may be agreed upon between the Borrower and the Bank. Each such review shall be based *inter alia* on the reports referred to in paragraph (a) of this Section.

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.

#### **ARTICLE IV**

##### **Financial Covenants**

Section 4.01. (a) The Borrower shall cause CONAFE to establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) The Borrower shall cause CONAFE to:
  - (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
  - (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
  - (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may 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:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, 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;

- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Article III of this Agreement, the Borrower shall cause CONAFE to prepare, and shall cause NAFIN to furnish to the Bank, a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent semester, and shall cover such semester.

## **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; and

(b) the Implementation Agreement has been entered into.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Borrower (in its legal opinion), NAFIN (in a separate legal opinion satisfactory to the Bank, issued by NAFIN counsel acceptable to the Bank) and CONAFE (in a separate legal opinion satisfactory to the Bank, issued by CONAFE counsel acceptable to the Bank) indicate that the Implementation Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, NAFIN and CONAFE and is legally binding upon the Borrower, NAFIN and CONAFE in accordance with the Implementation Agreement's terms.

Section 5.03. The date December 30, 2004, 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 *Titular de la Unidad 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:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI)  
64145 (MCI)

Facsimile:

(202) 477-6391

For the Borrower:

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

Facsímile:

(52) 55 9158 1156

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.

UNITED MEXICAN STATES

By /s/ Francisco Gil Díaz

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ James Wolfensohn

Authorized Representative



**SCHEDULE 1**

**Withdrawal of the Proceeds of the Loan**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Works (except as covered by Category (4) below)	73,000,000	75%
(2) Goods (except as covered by Categories (4) and (5) below)	44,000,000	78%
(3) Consultants' services and Training	95,000,000	78%
(4) School Grants under Part B.4(a) of the Project	65,000,000	84%
(5) Student Supplies	9,000,000	23%
(6) Teacher Incentives	3,000,000	8%
(7) Incremental Operating Costs	4,000,000	8%
(8) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(9) Front-end Fee	3,000,000	Amount due under Section 2.04 of this Agreement

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(10) Unallocated	4,000,000	
TOTAL	<u>300,000,000</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 B.5 of the Project; and

(d) "Incremental Operating 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 forty five million dollars (\$45,000,000), may be made on account of payments made for expenditures incurred prior to the date of this Agreement but after twelve months prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure 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 consolidate and expand quality improvements in Initial and Basic Education through infrastructure improvements, provision of didactic materials, increase in teacher training and school supervision, implementation of school-based management strategies, and strengthening of States's 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: Initial Education

1. Training of approximately 27,000 education promoters, 2,700 module supervisors and 820 zone coordinators in the provision of early childhood development services.
2. Dissemination of this Part A of the Project within indigenous and low-income rural communities and development of coordination and support to the work of education promoters through the carrying out of visits by module supervisors and zone coordinators to said communities to contact key stakeholders.
3. Provision of training in early childhood development to approximately 496,800 parents of children of ages 0 to 4 or expecting their first child within approximately 27,000 indigenous or low-income rural communities (benefiting approximately 545,361 children).
4. Development, design, printing, reproduction and distribution of new educational and dissemination materials for this Part A of the Project.
5. Development of monitoring and evaluation systems for this Part A of the Project, including, *inter alia*, the continuous collection of data on monitoring indicators at the community level, the analysis of said data at the regional level by a team of regional coordinators and the carrying out of regional and national workshops to disseminate the results of said monitoring and evaluation activities and receive the relevant feedback.

#### Part B: Support for Basic Education

1. (a) Carrying out subprojects consisting of the 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) Carrying out subprojects consisting of the rehabilitation, refurbishing and provision of equipment for teacher training centers to facilitate in-service training of teachers.

2. Provision to Project Public Schools of teaching and learning materials (including computer equipment, library books, audio-visual equipment and educational software to be used in the Borrower's *Telesecundaria* distance learning program), and student supplies.

3. Provision of training and technical assistance for teachers in Project Public Schools to be provided by technical rural advisers during bi-monthly visits to the Project Public Schools (including *per diems* to said technical rural advisers for the referred visits to Project Public Schools).

4. (a) Provision of grants to Parents' Associations for subprojects consisting of school repairs and rehabilitation, minor infrastructure improvements and supplementary educational materials.

(b) Provision of training to Parents' Associations in: (i) financial management (to facilitate the management of the grants referred under paragraph (a) above); and (ii) participatory skills (to increase parents' involvement in Project Public Schools' activities).

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

6. Strengthening of supervision of teachers in Project Public Schools through the provision of *per diems* to supervisors and sector chiefs to increase the number and depth of supervisory visits to individual Project Public Schools that offer primary education.

#### Part C: Institutional Strengthening

1. Strengthening of the technical capacity of the SEPEs through the carrying out of workshops focusing on, *inter alia*, multi-grade education, in-service teacher training, education evaluation, inter-cultural and bilingual education, effective use of education technology and education planning.

2. Strengthening of the administrative capacity of the SEPEs to administer and efficiently deliver Basic Education services through the provision of technical assistance

in, *inter alia*, school supervision, administrative staff development, human resources management, management of physical resources, financial management, monitoring and evaluation systems and coordination between regular and compensatory education programs.

3. Consolidation of the monitoring and evaluation systems for CONAFE's compensatory programs through:

(a) the updating and improvement of CONAFE's monitoring system to adapt it for this Project;

(b) the creation of an information system linking geographic and demographic data with education indicators;

(c) the development of a system of public accountability through: (i) the public dissemination of CONAFE's compensatory education programs; (ii) the collection of data and analysis of perceptions of Project beneficiaries regarding the Project; and (iii) the development and implementation of mechanisms to strengthen social participation in support of the Project; and

(d) the carrying out of studies and an impact evaluation of the Project including: (i) impact evaluations of compensatory programs; (ii) a study on the maximization of the use of computer equipment in the Borrower's *Telesecundaria* program; (iii) impact evaluations of the grants to Parents' Associations under Part B.4 (a) of the Project; (iv) impact evaluation of the provision of education materials under the Project; (v) an analysis of prevailing education supervision practices and how to orient compensatory interventions in this area; (vi) impact evaluation of Part A; (vii) analysis of the use of targeting criteria for CONAFE's compensatory programs; (viii) impact evaluation of Part C.1 and C.2 of the Project; (ix) impact evaluation of the Project in pre-school education; and (x) impact evaluation of the Project in primary school education.

4. Provision of training and technical assistance for the management of the Project.

\* \* \*

The Project is expected to be completed by June 30, 2007.

**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 May 1 and November 1	
Beginning November 1, 2009 through May 1, 2019	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. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

#### Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

##### A. International Competitive Bidding.

Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding, and the following provisions:

1. Domestic Preference. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower. Said domestic preference will imply that the Borrower may acquire goods manufactured in the territory of the Borrower which are higher than the lowest bid by 15% or by the percentage of the import tax applicable to the relevant good (whichever is lower).

2. Grouping of Contracts. To the extent possible, contracts for goods shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each.



3. Notification and Advertising. The invitation to bid for each contract and the relevant contract award shall be advertised in COMPRANET.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods estimated to cost less than \$175,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Community Participation. Goods, works and services required for subprojects under Part B.1 and B.4 (a) of the Project estimated to cost less than \$50,000 equivalent per subproject may be procured on the basis of community participation in accordance with procedures acceptable to the Bank, which procedures may include, *inter alia*, that:

(a) beneficiary communities shall contribute in kind with at least 10% of the required labor; and

(b) both for the contracting of small works or the purchase of materials, beneficiary communities will seek three quotations.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B: Other Procedures

1. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines and estimated to cost less than \$250,000 equivalent per contract may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines and estimated to cost less than \$250,000 equivalent per contract may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to the prior approval of the Bank.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the record of justification for such contracts, referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines, shall be subject to Prior Review by the Bank. All other contracts shall be subject to Post Review by the Bank.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2), (3), (4), (5), (6) and (7) 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 \$15,000,000 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 \$60,000,000.
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 cause NAFIN 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 cause NAFIN, 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.

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