

LOAN NUMBER 8446-MX

# **Loan Agreement**

**(School-Based Management Project)**

**between**

**UNITED MEXICAN STATES**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated**      March 13      , 2015

## LOAN AGREEMENT

Agreement dated March 13, 2015, between UNITED MEXICAN STATES (“Borrower”) duly represented by its Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”).

WHEREAS the Borrower has informed the Bank that the proceeds of the Loan (as set forth in the table in Section IV.A.3 of Schedule 2 to this Agreement and for purposes of supporting the project described in Schedule 1 to this Agreement (“Project”)), shall be used in conformity with the requirements of the Borrower’s income, budgetary and public debt laws and the terms of this Agreement.

NOW THEREFORE the Borrower and the Bank hereby agree as follows:

### ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

### ARTICLE II — LOAN

- 2.01. Noting that the Borrower has informed the Bank that the proceeds of the Loan shall be used in conformity with the requirements of the Borrower’s income, budgetary and public debt laws and the terms of this Agreement, but without limitation to the provisions of Section 8.01 of the General Conditions, the Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of three hundred and fifty million Dollars (\$350,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”), to assist the Borrower in financing the Project.
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. Unless the Borrower’s representative designated in Section 6.01 of this Agreement otherwise informs the Bank, the Borrower’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the *Director/a de Organismos Financieros Internacionales* of NAFIN or any person or persons whom such representative shall designate in writing.

- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.
- 2.06. The Payment Dates are February 15 and August 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.08. (a) The Borrower may (or may cause NAFIN) 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: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.  
  
(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

### **ARTICLE III — PROJECT**

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower, through SEP, shall: (a) and shall cause the States to carry out Part 1 of the Project, in coordination with the PEC Schools; and (b) carry out Part 2 and Part 3 of the Project, in coordination with States, PEC Schools and PETC Schools, all in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower, through SEP, shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — REMEDIES OF THE BANK**

- 4.01. The Additional Events of Suspension consist of the following, namely that any of the parties to the *Contrato de Mandato* or to any of the Coordination Agreements shall have failed to: (a) perform any of its obligations under the *Contrato de Mandato* or under the relevant Coordination Agreement; and/or (b) comply with any other transparency and anticorruption commitments undertaken *vis-à-vis* the Borrower with respect to this Project.
- 4.02. The Additional Event of Acceleration consist of the following, namely, that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
  - (a) the *Contrato de Mandato* has been duly executed by the parties thereto; and

- (b) (i) the *Oficio* referred to in Section I.D.2 of Schedule 2 to this Agreement has been issued; and (ii) at least one State has: (A) deposited funds in the relevant FEEC as a tacit acceptance of the *Oficio*'s transparency provisions, or (B) issued a note to SEP agreeing to comply with transparency provisions acceptable to the Bank.

5.02. The Additional Legal Matters consist of the following:

- (a) the Borrower, through SHCP and SEP (in separate legal opinions—one for SHCP and one for SEP- satisfactory to the Bank, issued by Borrower counsel acceptable to the Bank), indicates that the *Contrato de Mandato* has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, and is legally binding upon the Borrower in accordance with the *Contrato de Mandato*'s terms; and
- (b) NAFIN, through a legal opinion satisfactory to the Bank, issued by NAFIN counsel acceptable to the Bank, indicates that the *Contrato de Mandato* has been duly authorized or ratified by, and executed and delivered on behalf of, NAFIN, and is legally binding upon NAFIN in accordance with the terms of the *Contrato de Mandato*.

5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on April 23, 2016.

#### **ARTICLE VI — REPRESENTATIVE; ADDRESSES**

6.01. Except as set forth in Section 2.02 of this Agreement, the Borrower's Representative is the *Titular de la Unidad de Crédito Público* of SHCP. The authorized representative to make requests for Conversions or for an IBRD Hedge (as defined in the Hedging Guidelines) on behalf of the Borrower shall be the *Titular de la Unidad de Crédito Público* of SHCP or any person or persons whom he or she shall designate in writing for this particular purpose.

6.02. The Borrower's Address is:  
Secretaría de Hacienda y Crédito Público  
Unidad de Asuntos Internacionales de Hacienda  
Insurgentes Sur 1971, Torre III, Piso 3  
Colonia Guadalupe Inn, 01020  
Delegación Alvaro Obregón  
México, Distrito Federal

6.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Mexico City, Mexico, as of the day and year first above written.

**UNITED MEXICAN STATES**

By




**Authorized Representative**

**Name:** Alejandro Díaz de León

**Title:** Titular de la Unidad de Crédito  
Público

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**

By



**Authorized Representative**

**Name:** Gerardo M. Corrochano

**Title:** Director  
Colombia and Mexico

## SCHEDULE 1

### Project Description

The objective of the Project is to improve schools' managerial capacity and parental participation to reduce dropout, repetition and failure rates among PEC Schools and PETC Schools.

The Project consists of the following parts:

#### Part 1: Increasing School Autonomy and Parent Participation

Provision of Direct Support to PEC Schools to implement Improvement Plans.

#### Part 2: Improving Schools' Managerial Capacity

Provision of technical assistance to PEC Schools and PETC Schools to strengthen school-based management through:

1. Support for the development of a school dashboard for schools' supervisors and directors including, *inter alia*, performance indicators and best practices.
2. Support for: (a) the development and implementation of a capacity building strategy for school directors and supervisors on: (i) the use of the school dashboard and its role in improving school management practices; and (ii) the use of a classroom observation method; (b) the improvement of schools' managerial practices through the development and implementation of capacity building activities for parents; and (c) the development of the information system needed to keep the schools' dashboards running, relevant, and up to date, including the preparation of guidelines describing an implementation and maintenance protocol for said dashboards.

#### Part 3: Research and Innovation

1. Provision of support for the development of a new instrument to measure PEC Schools and PETC Schools' managerial capacity, through the piloting, redesign (if necessary), implementation, and comparison of alternative questionnaires to measure said managerial capacity.
2. Provision of support to States to improve adherence to PEC's Operational Rules through the carrying out of workshops and knowledge exchange activities.
3. Provision of support for the carrying out of an assessment in at least two self-selected States which will estimate and quantify the effect of the intervention supported by the Project through PEC and PETC.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. Without limitation upon the provisions of Section 3.01 of this Agreement the Borrower, through SEP, shall carry out, and shall cause the States to carry out, the Project activities under their responsibility (including those Project activities in which the States shall have coordination responsibilities) in accordance with the Operational Manual. Except as the Bank shall otherwise agree, the Borrower, through SEP, shall not amend, waive or fail to enforce any provision of the Operational Manual without the Bank's prior written approval; provided, however, that the Borrower will be able to modify the section of the Operational Manual that includes the PEC Operational Rules when such modification does not, in the opinion of the Borrower and the Bank, adversely affect the performance or the objective of the Project. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.
2. (a) The Borrower, through SEP, shall enter into a separate Coordination Agreement, satisfactory to the Bank, for purposes of the carrying out of the Project, with each of the States, whereby:
  - (i) the Borrower, through SEP, shall agree to provide or cause to be provided, in a timely manner as needed and as provided for in the Operational Manual, the funds required for implementing Part 1 of the Project within each State; and
  - (ii) the State shall agree to: (A) carry out Part 1 of the Project; and (B) assist the Borrower in the carrying out of Parts 2 and 3 of the Project.
- (b) The Borrower, through SEP, shall ensure that each Coordination Agreement be duly authorized or ratified by, and executed and delivered by the Borrower, through SEP, and each State (through the relevant AEL) and be legally binding upon the Borrower, through SEP, and each State in accordance with the relevant Coordination Agreement's terms.



- (c) The Borrower, through SEP, shall exercise its rights and carry out its obligations under each Coordination Agreement. Except as the Bank may otherwise agree, the Borrower, through SEP, shall not amend, terminate, waive or fail to enforce any provision of each Coordination Agreement. In case of any conflict between the terms of each Coordination Agreement and those of this Agreement, the terms of this Agreement shall prevail.
- 3. The Borrower, through SEP, shall cause each State to abide by all applicable Project provisions laid out in this Agreement, including the carrying out of the Project in accordance to the Operational Manual (including the IPP and the Anti-Corruption Guidelines).
- 4.
  - (a) The Borrower, through SEP, shall cause each State to ensure that each PEC School carries out the activities under the relevant Direct Support proposal in accordance with the provisions of this Agreement.
  - (b) In order for a PEC School to receive a Direct Support: (i) the PEC School shall have entered into, and be in compliance with, an agreement with the relevant State (through its AEL) under terms and conditions set forth in the Operational Manual.
- 5. Consistently with Section 7 of the Disbursement Guidelines:
  - (a) if the Bank determines at any time, through regular Project supervision and auditing, that an amount of the Loan, disbursed pursuant to Category (1) in the table in Section IV.A.3 of Schedule 2 to this Agreement, was not used by a PEC School to acquire goods, small works or services under the respective Improvement Plan for purposes of Part 1 of the Project in accordance with the terms of this Agreement, the Borrower shall promptly furnish to the Bank additional evidence, as the Bank may request, to justify the use of said amount of the Loan, (in the case of such a request made by the Bank within one month before the Closing Date, the Borrower shall have up to four months after the Closing Date to furnish the requisite additional evidence to the Bank); and
  - (b) in the event that the evidence referred to in paragraph (a) of this paragraph is not furnished to, or found satisfactory by the Bank, the Bank reserves the right at all times to request a repayment of the corresponding portion of the Loan for inclusion in the Loan Account.

6. The Borrower, through SEP, shall:
- (a) maintain and operate at all times during Project implementation an organizational structure acceptable to the Bank, which shall be responsible for overall planning, coordination, implementation, supervision, technical support for basic education, monitoring and evaluation of the Project, and which shall have, *inter alia*, the responsibility for the preparation of the financial statements, financial reports and Project Reports, and maintenance of the records and accounts referred to in Section II of this Schedule;
  - (b) with the collaboration of the relevant State, maintain records and separate accounts adequate to reflect, in accordance with sound accounting practices, the funds and other resources it (and/or any PEC Schools or States) has received, allocated and/or spent in connection with the Project;
  - (c) carry out, and/or cause each PEC School and State to comply with the provisions of Section III of this Schedule with respect to Part 1 of the Project; and
  - (d) cooperate fully with NAFIN so as to allow NAFIN to comply with NAFIN's obligations referred to in this Agreement.

**B. Contrato de Mandato**

1. The Borrower, through SHCP and SEP, shall enter into a contract (*Contrato de Mandato*), satisfactory to the Bank, with NAFIN, whereby, *inter alia*:
- (a) NAFIN agrees to: (i) act as financial agent of the Borrower with regard to the Loan, meaning that, *inter alia*, NAFIN agrees to represent the Borrower *vis-à-vis* the Bank, for purposes of submitting Loan withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Borrower of Loan proceeds and agrees to maintain and operate the designated account (referred to in the additional instructions cited in Section IV.A.1 of this Schedule 2) in compliance with the terms of this Agreement; and (ii) comply with the Anti-Corruption Guidelines;
  - (b) the Borrower, through SEP, agrees to carry out and cause the States to carry out, the Project activities under their responsibility (including those Project activities in which the States shall have coordination responsibilities) in accordance with the provisions of this Agreement, including the IPP, the Anti-Corruption Guidelines, and the Operational Manual (including the Project's financial management and procurement arrangements);

- (c) the Borrower, through SHCP, shall have the right to, in case of fraud or corruption (as defined in the Anti-Corruption Guidelines) provide for the early termination of the *Contrato de Mandato*, or temporarily suspend its effects, or, if applicable, require the Restitution of an amount equivalent of the funds transferred to NAFIN under said *Contrato de Mandato*; and
  - (d) the Borrower, through SEP, agrees to cooperate fully with NAFIN to ensure that NAFIN is able to comply with all of NAFIN's obligations referred to in Section I.B.1 (a) herein.
2. The Borrower shall exercise its rights and carry out its obligations under the *Contrato de Mandato* in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Loan. The Borrower shall not amend, waive or fail to enforce the *Contrato de Mandato* or any provision thereof, except as the Bank may otherwise agree. In case of any conflict between the terms of the *Contrato de Mandato* and those of this Agreement, the terms of this Agreement shall prevail.

**C. Trust Agreements (*Fideicomisos*)**

- (a) The Borrower, through SEP, shall transfer the funds to finance Part 1 of the Project through the FNEC and through the relevant FEEC.
- (b) The Borrower, through SEP, shall ensure, and shall cause the States to ensure, through the exercise of the Borrower's voice and voting rights and the exercise of the State's voice and voting rights in the technical committees of the FNEC or the FEECs, as it may correspond, that Part 1 of the Project is carried out in accordance with the provisions of this Agreement (including the Anti-Corruption Guidelines provisions and the IPP).
- (c) The Borrower, through SEP, shall exercise its rights and carry out its obligations under the FNEC and under the FEECs in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Loan. Except as the Bank may otherwise agree, the Borrower shall not amend, waive or fail to enforce any provision of the FNEC or of any of the FEECs. In case of any conflict between the terms of the FNEC or of the FEECs and those of this Agreement, the terms of this Agreement shall prevail.

**D. Anti-Corruption**

1. The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines. In this regard, the Borrower, through SEP or through any other entity as the Borrower may deem appropriate, shall, *inter alia*, ensure compliance with paragraph 9 (d) of the Anti-Corruption Guidelines as follows:
  - (a) by requiring the States to take appropriate measures to prevent, inform on, respond to and investigate corrupt, fraudulent, collusive, coercive and obstructive practices with respect to their payment (or that of their agents) of Direct Support;
  - (b) by allowing the Bank to inspect accounts, records and other documents of any/or all the States relating to the Project upon the Bank's request and in the company of SEP representatives;
  - (c) by allowing the Bank, at its request, to have such accounts, records and other documents audited by or on behalf of the Bank, using the Bank's terms of reference for such purpose, with the collaboration of the Borrower, through SEP; and
  - (d) by agreeing to obtain Restitution from any/or all of the States, as the case may be, of any equivalent amount of the Loan with respect to which fraud and corruption has occurred, all the above pursuant to audit, transparency, control, restitution and information sharing clauses within the Coordination Agreements and its annual annexes, the Operational Manual, letters from the State to the Borrower, through SEP, the *Oficio* referred under Section I.D.2 below, and/or any other means (including, but not limited to the Borrower's rights under the Federal Budget and Fiscal Responsibility Law, the General Public Debt Law, and the Monitoring and Accountability Law).
2. The Borrower, through SEP, shall issue a notice (*Oficio*) acceptable to the Bank asking the States to comply with transparency and anticorruption provisions, and stating that once the States have deposited funds in the relevant FEED, such deposit will be interpreted as a tacit acceptance of the *Oficio*'s transparency provisions.
3. The Borrower, through SEP, shall issue a notice to the financial institutions that administer the funds under the FNEC and the FEEDs, informing them of the existence of the Anti-Corruption Guidelines (and accompanying a copy thereof), and notifying them that if any of those financial institutions incur in any of the sanctionable offenses described under the Anti-Corruption Guidelines, the Bank may sanction the relevant financial institution in accordance with the Bank's sanctions regime.

**Section II. Project Monitoring Reporting and Evaluation**

**A. Project Reports**

The Borrower, through SEP, shall, and shall cause the States, to monitor and evaluate the progress of the Project activities under their responsibility, and shall prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of Key Performance Indicators. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than sixty (60) days after the end of the period covered by such report.

**B. Financial Management, Financial Reports and Audits**

1. The Borrower, through SEP, shall, and shall cause the States, to maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower, through SEP, shall prepare and furnish to the Bank not later than forty five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the pertinent semester, in form and substance satisfactory to the Bank.
3. The Borrower, through SEP, shall have the Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower, commencing with the fiscal year in which the Project becomes effective. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Goods, Works and Non-consulting Services.** All goods, works and non-consulting services required for the Project and to be financed with an amount equivalent to the amount in Dollars provided under the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed with an amount equivalent to the amount in Dollars provided under the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.
4. **Special Provisions.** The Borrower, through SEP, shall: (a) supply the SEPA with the information contained in the initial Procurement Plan within 45 days after the date of this Agreement; and (b) update the Procurement Plan at least once a year, or as needed through the duration of the Project, to reflect the actual Project implementation needs and progress and supply the SEPA with the information contained in the updated Procurement Plan immediately thereafter.

**B. Particular Methods of Procurement of Goods, Works and Non-consulting Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.
2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) Quality-Based Selection
(b) Selection under a Fixed Budget
(c) Least-Cost Selection

(d) Selection Based on the Consultants' Qualification
(e) Single Source Selection
(f) Procedures set forth in paragraphs 5.2, 5.3 and 5.4 of the Consultant Guidelines for the selection of Individual Consultants

**D. 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. All other contracts shall be subject to Post Review by the Bank.

**Section IV. Withdrawal of Loan Proceeds**

**A. General**

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank may specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions).
2. The Bank shall, on behalf of the Borrower, withdraw from the Loan Account on or after the Effective Date and pay to itself the Front-end Fee payable pursuant to Section 3.01 of the General Conditions. The remaining proceeds of the Loan shall be disbursed in Dollars unless otherwise agreed between the Borrower and the Bank and so reflected in the additional instructions referred to in Section IV.A.1 immediately above. Consistently with Section 2.05 of the General Conditions, the Borrower shall use an amount equivalent to the amount in Dollars provided under the Loan Agreement to finance Eligible Expenditures.
3. The following table specifies the categories of Eligible Expenditures that may be financed with an amount equivalent to the amount in Dollars provided under the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in USD)</u>	<u>Percentage of Expenditures to be financed (inclusive of Taxes)</u>
(1) Goods, minor works and consultants' services financed under the relevant Direct Support	342,000,000	100%
(2) Project Incremental Costs under the Project	2,000,000	100%
(3) Consultants' services, non-consulting services and Capacity Building under the Project	5,125,000	100%
(4) Front-end Fee	875,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(5) Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 2.08(c) of this Agreement
<b>TOTAL AMOUNT</b>	<b>350,000,000</b>	

4. For purposes of this Section IV.A, the following terms have the following meanings:
- (a) "Capacity Building" means the reasonable expenditures (other than consultants' services and non-consulting services) incurred by the Borrower in connection with the carrying out of capacity building activities (including workshops, conferences and seminars) under the Project.
  - (b) "Project Incremental Costs" means the reasonable incremental operating expenditures, based on an allocation previously approved by the Bank and the Borrower, incurred by SEP, required for an efficient Project implementation, administration, supervision, monitoring and evaluation, including costs of SEP's operation and maintenance, but excluding salaries of SEP's officials and public servants of the Borrower's civil service as set forth in the Operational Manual.



**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
  - (a) from the Loan Account for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$ 70,000,000 may be made for payments made prior to this date but on or after May 1, 2014, for Eligible Expenditures; or
  - (b) for payments made under Category (1) of the table under Part A of this Section unless the State for which Direct Support will be financed has either: (i) deposited funds under the relevant FEEC as a tacit acceptance of the transparency provisions requested under Section I.D.2 of Schedule 2 to this Agreement; or (ii) sent a note to SEP committing to comply with transparency provisions acceptable to the Bank.
  
2. The Closing Date is December 31, 2018.

**SCHEDULE 3**

The Borrower shall repay the principal amount of the Loan in full on August 15, 2032.

## APPENDIX

### Section I. Definitions

1. “AEL” means *Autoridad Educativa Local*, the education authority (Public Education Secretariat or equivalent) of each State.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014).
5. “*Contrato de Mandato*” means the agreement referred to in Section I.B.1 of Schedule 2 to this Agreement.
6. “Coordination Agreement” means any of the agreements referred to in Section I.A.2 of Schedule 2 of this Agreement.
7. “Direct Support” means a non-reimbursable contribution in an amount to be defined by a resource allocation formula set forth in the Operational Manual, made or proposed to be made under PEC, through FNEC and FEEC, out of the proceeds of the Loan, to any given PEC School for the financing of eligible expenditures to implement Improvement Plans under Part 1 of the Project.
8. “FEEC” means each of the trust funds (*fideicomiso*), duly established in each of the States or any subaccount established in the FNEC and managed by the relevant State as part of the implementation structure of PEC, with the objective of channeling PEC funds in the form of Direct Support to PEC Schools, as said trust funds may be amended with the agreement of the Bank.
9. “Federal Budget and Fiscal Responsibility Law” means the Borrower’s *Ley Federal de Presupuesto y Responsabilidad Hacendaria*, as said law and its subsequent amendments have been published in the Official Gazette through August 11, 2014.
10. “FNEC” means the Borrower’s national trust fund (*fideicomiso*) established as part of the implementation structure of PEC, pursuant to the trust fund agreement dated August 22, 2001 with the objective of channeling PEC funds to the FEECs, as said trust fund may be amended with the agreement of the Bank.

11. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012, with the modifications set forth in Section II of this Appendix.
12. “General Public Debt Law” means the Borrower’s *Ley General de Deuda Pública*, as said law and its subsequent amendments have been published in the Official Gazette through August 11, 2014.
13. “Hedging Guidelines” means the Bank’s Guidelines for Using Hedging Products dated March 23, 2009, or any later guidelines issued by the Bank to replace said guidelines.
14. “Improvement Plan” means any PEC School plan that includes investments for productive purposes that aim to strengthen school-based management and fulfill the requirements set forth in the Operational Manual.
15. “IPP” means the Borrower’s Indigenous Peoples Plan, published June 26, 2014, as said plan may be updated, from time to time, with the agreement of the Borrower and the Bank.
16. “Key Performance Indicators” means the indicators, satisfactory to the Bank, for monitoring and evaluating progress towards the attainment of the Project objective.
17. “Monitoring and Accountability Law” means the Borrower’s *Ley de Fiscalización y Rendición de Cuentas de la Federación*, as said law and its subsequent amendments have been published in the Official Gazette through June 18, 2010.
18. “NAFIN” means *Nacional Financiera, S.N.C., I.B.D.*, a Mexican development bank serving as the Borrower’s financial agent for purposes of the Loan.
19. “Official Gazette” means the Recipient’s official gazette (*Diario Oficial de la Federación*).
20. “Oficio” means the notice referred in Section I.D.2 of Schedule 2 to this Agreement.
21. “Operational Manual” means the Borrower’s manual, dated September 12, 2014, satisfactory to the Bank, referred to in Section I.A.1 of Schedule 2 to this Agreement, which includes *inter alia*: (a) the procurement, disbursement and financial management requirements for the Project; (b) the IPP; (c) the Key Performance Indicators; (d) the PEC Operational Rules; (f) the environmental and health regulations to be observed in case minor construction or rehabilitation activities need to be carried out in the context of Direct Support; (g) the Anti-Corruption Guidelines; and (h) the transparency and anticorruption provisions, including a provision stating that the Bank partially supports the Project through this Agreement, and therefore establishing audit, information and investigation

rights for the Borrower, through SEP, which the Borrower hereby agrees to share with the Bank as set forth in Section D of Schedule 2 to this Agreement.

22. “PEC” means the Borrower’s *Programa Escuelas de Calidad*, which program operates under the PEC Operational Rules with the objective of, *inter alia*: strengthening and promoting schools’ autonomy, parental participation accountability, and the active involvement of the schools’ community in the delivery of basic education services, through the provision of Direct Support.
23. “PEC Operational Rules” means the Borrower’s operational rules for the PEC, published in the Borrower’s Official Gazette on December 28, 2013, as these may be amended from time to time as discussed with the Bank.
24. “PEC School” means any public school located in the Borrower’s territory, where basic education services (pre-school and grades 1 through 9) are provided, selected to participate as a beneficiary school under PEC according to the eligibility criteria set forth in the Operational Manual.
25. “PETC” means the Borrower’s *Programa de Escuelas de Tiempo Completo*, which program operates under PETC Operational Rules, with the objective of, *inter alia*: improving the equity of the education system through the strengthening and promotion of schools’ autonomy and the active involvement of parents in the delivery of basic education services in the most marginalized communities in the Borrower’s territory.
26. “PETC Operational Rules” means the Borrower’s operational rules for the PETC, published in the Borrower’s Official Gazette on December 28, 2013, as these may be amended from time to time as discussed with the Bank.
27. “PETC School” means any public school located in the Borrower’s territory, where basic education (pre-school and grades 1 through 9) level classes are provided, selected to participate as a beneficiary school under PETC according to the eligibility criteria set forth in the Operational Manual.
28. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014).
29. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated September 11, 2014, and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
30. “Restitution” means paying back the ill-gotten gains to the government or to the victim of fraud and corruption, as set forth in the Anti-Corruption Guidelines.

31. "SEP" means *Secretaría de Educación Pública*, the Borrower's Public Education Ministry.
32. "SEPA" means the Bank's publicly accessible Procurement Plans Execution System.
33. "SHCP" means *Secretaría de Hacienda y Crédito Público*, the Borrower's Ministry of Finance and Public Credit.
34. "State" means the Federal District (*Distrito Federal*) and any of the other thirty one geopolitical subdivisions (*Estados*) of the Borrower.

## **Section II. Modifications to the General Conditions**

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.
2. Section 3.01. (*Front-end Fee*) is modified to read as follows:

"Section 3.01. *Front-end Fee; Commitment Charge*

  - (a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the "Front-end Fee").
  - (b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."
3. In the Appendix, **Definitions**, all relevant references to Section numbers and paragraphs are modified, as necessary, to reflect the modification set forth in paragraph 2 above.
4. The Appendix is modified by inserting a new paragraph 19 with the following definition of "Commitment Charge", and renumbering the subsequent paragraphs accordingly:

"19. "Commitment Charge" means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b)."