Loan Agreement

(Oaxaca Water and Sanitation Sector Modernization Operation)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS, S.N.C,
INSTITUCIÓN DE BANCA DE DESARROLLO

Dated June 13, 2014
LOAN AGREEMENT

Agreement dated [June 13], 2014, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS, S.N.C, INSTITUCIÓN DE BANCA DE DESARROLLO ("Borrower"). The Bank and the Borrower hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions for the Program and the General Conditions for the Project (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement: (a) the amount of forty five million Dollars ($45,000,000) (the Program Loan); and (b) the amount of ten million Dollars ($10,000,000) (the Project Loan), as any of such amounts may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement, to assist in financing the Operation.

2.02. The Borrower may withdraw the proceeds of the Program Loan and the Project Loan in accordance with Sections IV of Schedules 2 and 3 to this Agreement, respectively. All withdrawals from the Program Loan Account shall be deposited by the Bank into an account specified by the Borrower and acceptable to the Bank.

2.03. The Front-end Fee payable by the Borrower shall be equal to: (a) one quarter of one percent (0.25%) of the Program Loan amount; and (b) one quarter of one percent (0.25%) of the Project Loan amount. The Borrower shall pay the Front-end Fee to the Program Loan and the Project Loan not later than 60 days after the Effective Date.

2.04 The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Program Loan Currency or Project Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Program Loan or Project 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 Program Loan Balance or Withdrawn Project 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.

2.05. The Payment Dates are June 15 and December 15 in each year.

2.06. The principal amount of the Program Loan and the Project Loan shall be repaid in accordance with the provisions of Schedules 4 and 5 to this Agreement, respectively.

2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Program Loan and/or the Project 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 Program Loan and/or the Project 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 Program Loan and/or the Project 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 Program Loan and/or the Project 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 Program Loan and/or the Project 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 Program Loan and/or the Project 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.

ARTICLE III — PROGRAM

3.01. The Borrower declares its commitment to the objectives of the Operation. To this end, the Borrower shall cause, pursuant to the provisions of the Subsidiary Agreement: (a) the Operation Implementing Entity, through SEFIN, to carry out the Operation; and (b) the Participating Agencies to assist the Operation
Implementing Entity in the carrying out of selected activities under the Operation that fall under their administrative and territorial jurisdiction pursuant to the pertinent Participating Agency Agreement; all in accordance with the provisions of Article V of the respective 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 shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to ensure that the Operation is carried out in accordance with the provisions of Schedules 2 and 3 to this Agreement, as applicable.

ARTICLE IV — REMEDIES OF THE BANK

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

(a) The Operation Implementing Entity shall have failed to comply with any of its obligations under the Subsidiary Agreement.

(b) An action has been taken or a policy has been adopted to reverse any action under the Program Action Plan in a manner so as to affect materially and adversely in the opinion of the Bank, the ability of the Operation Implementing Entity to carry out the Operation.

4.02. The Additional Events of Acceleration consist of the following, namely that the events specified in paragraphs (a) or (b) of Section 4.01 of this Agreement occur and are 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 Subsidiary Agreement has been executed on behalf of the Borrower and the Operation Implementing Entity.

(b) The Participating Agency Agreements have been executed on behalf of each respective Participating Agency and the Operation Implementing Entity.

(c) The Operational Manual has been duly approved and adopted by the Operation Implementing Entity, through SEFIN.
5.02. The Additional Legal Matters consist of the following:

(a) The Subsidiary Agreement has been duly authorized or ratified by the Borrower and the Operation Implementing Entity and is legally binding upon the Borrower and the Operation Implementing Entity in accordance with its terms.

(b) The Participating Agency Agreements have been duly authorized or ratified by the Operation Implementing Entity and each respective Participating Agency, and each said agreement is legally binding upon the Operation Implementing Entity and each respective Participating Agency, in accordance with its terms.

5.03. The Effectiveness Deadline is the date ninety days (90) days after the date of this Agreement, but in no case later than eighteen (18) months after the Bank's approval of the Program Loan and Project Loan which expire on December 4, 2015.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is its Planning, Analysis and Control Director (Directora de Planeación, Análisis y Contraloría).

6.02. The Borrower’s Address is:

Banco Nacional de Obras y Servicios Públicos, S.N.C.
Javier Barros Sierra, 515
Colonia Lomas de Santa Fe, Delegación Álvaro Obregón
México DF, 01219

Telex: 5270-1200  Facsimile: 5270-1564

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: INTBAFRAD  Telex: 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)
AGREED at __________, Mexico City, Mexico, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By __________________________

Authorized Representative

Name: _________________
Title: ________________

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS, S.N.C, INSTITUCIÓN DE BANCA DE DESARROLLO

By __________________________

Authorized Representative

Name: _________________
Title: ________________
SCHEDULE 1

Operation Description

The objectives of the Operation are to: (i) support the improvement of the institutional framework of the WSS sector of the Operation Implementing Entity; and (ii) improve the quality and sustainability of water supply service in Selected Urban Areas.

The Operation consists of the following:

Part I: Program

The Program consists of the following activities:

1. Modernization of the Operation Implementing Entity's WSS sector legal and regulatory framework:

   Drafting key legislation and regulations of the WSS sector to align them with the Operation Implementing Entity's vision to modernize the WSS sector's institutional framework, including inter alia, the development of: (a) a WSS sector law and related regulations; (b) standard regulations for municipal or inter-municipal WSS service provision; (c) the SAPAO law; and (d) the CEA and SAPAO organizational manuals and internal regulations.

2. Improvement of water services in the San Juan Chapultepec Sector:

   Improving the quality and efficiency of water service in the San Juan Chapultepec Sector, through, inter alia: (a) the rehabilitation of the boreholes supplying the sector; (b) the construction of interconnection between the boreholes and water treatment facility; (c) the construction of an interconnection with main distribution lines; (d) the construction of a water treatment facility; (e) the construction of a pumping station; (f) the construction of a transmission line from the pumping station to storage tanks; (g) the rehabilitation and construction of storage tanks; (h) the rehabilitation, hydraulic optimization and sectorization of the water distribution network; (i) the rehabilitation of water connections and the installation of micro-metering; (j) the installation of macro-metering and pressure gauges; (k) the update of the network mapping and commercial system; and (l) the carrying out of WSS studies, preparation of bidding documents and works supervision.

3. Improvement of water services in Selected Secondary Towns:

   Improving the quality of water services and the financial sustainability of the water utilities of Selected Secondary Towns through, inter alia: (a) the
rehabilitation and extension of production, storage and pumping systems; (b) the rehabilitation, hydraulic optimization and sectorization of the water network; (c) the rehabilitation of water connections; (d) the installation of macro and micro metering and pressure gauges; (e) the update of the network mapping and commercial systems; (f) the improvement of accounting systems; and (g) the carrying out of WSS studies, preparation of bidding documents and works supervision.

4. Improvement of information in Selected Rural Areas:

Establishing an information system on the sustainability of rural WSS service providers in Selected Rural Areas, through: (a) the provision of information technology infrastructure and equipment and carrying out of training in the use of said information technology's systems; and (b) the carrying out of data survey activities.

**Part II: Technical Assistance (the Project)**

1. Provision of technical assistance to improve the Program’s performance and increase the likelihood to achieve its objective, including *inter alia*: the provision of technical assistance to SAPAO, CEA and water utilities in Selected Secondary Towns to improve the planning of activities, review the quality of the bidding documents, strengthen the supervision of the works and improve the operational, commercial, social and environmental management of the water systems' operations.

2. Carrying out of WSS sector studies, including: (a) a rural and urban water supply and sanitation strategy for the long-term development and organization of the sector; (b) a public expenditure review of the Oaxaca WSS sector; and (c) the design of a pilot program to provide sustainable rural WSS implementation and support services.

3. Provision of support to the Operation’s management activities, including, *inter alia* (a) the provision of technical assistance for the carrying out of technical audits of DLI compliance under the Program; (b) the hiring of Program coordinators; (c) the carrying out of training and provision of technical assistance to SEFIN and the Participating Agencies to strengthen their fiduciary systems; and (d) the financing of the financial audits for the Operation.
SCHEDULE 2

Program Execution

Section I. Implementation Arrangements

A. Program Fiduciary, Environmental and Social Systems

Without limitation on the provisions of Article V of the General Conditions for the Program, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to carry out the Program in accordance with financial management, procurement and environmental and social management systems acceptable to the Bank ("Program Fiduciary, Environmental and Social Systems") which are designed to ensure that:

1. the Program Loan proceeds are used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability; and

2. the actual and potential adverse environmental and social impacts of the Program are identified, avoided, minimized, or mitigated, as the case may be, all through an informed decision-making process.

B. Anti-Corruption

Without limitation on the provisions of Part A of this Section, the Borrower shall: (a) carry out its obligations under this Agreement in accordance with the provisions of the Anti-Corruption Guidelines for the Program; and (b) cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to carry out the Program in accordance with the provisions of the Anti-Corruption Guidelines for the Program.

C. Other Program Institutional and Implementation Arrangements

1. Program Institutions

Without limitation on the generality of Part A of this Section I, the Borrower shall cause:

(a) the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to carry out the Program through SEFIN, and to operate, at all times, during the implementation of the Program, with powers, functions, capacity and resources satisfactory to the Bank to discharge such functions under the Program.

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(b) the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to cause each Participating Agency to maintain adequate staff in sufficient numbers to carry out the activities under the Program that fall within their administrative jurisdiction, and to operate, at all times, during the implementation of the Program, with powers, functions, capacity and resources satisfactory to the Bank to discharge such functions under the Program.

2. Subsidiary Agreement

(a) To facilitate the carrying out of the Program, the Borrower shall make the proceeds of the Program Loan available to the Operation Implementing Entity under a subsidiary agreement between the Borrower and the Operation Implementing Entity, under terms and conditions approved by the Bank, in respect of the Program ("Subsidiary Agreement").

(b) The Borrower shall exercise its rights and carry out its obligations in respect of the Program under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Program Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, terminate, abrogate or waive the Subsidiary Agreement or any of its provisions.

3. Implementation Agreements

(a) To facilitate the carrying out of the Program, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to enter into an agreement (the Participating Agency Agreement) with each Participating Agency, all under terms and conditions approved by the Bank, in respect of the Program which shall include, inter alia, the obligation of each Participating Agency to: (i) carry out the activities which fall within its administrative jurisdiction under the Program in accordance with the pertinent provisions set forth in Article V of the General Conditions for the Program; and (ii) comply with the pertinent provisions of this Schedule as applicable to said Participating Agency, including compliance with the provisions of the Anti-Corruption Guidelines for the Program.

(b) The Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to exercise its rights and carry out its obligations under each Participating Agency Agreement in such manner as to protect the interests of the Operation Implementing Entity and the Bank and to accomplish the purposes of the Program Loan. Except as the Bank shall otherwise agree, the Borrower shall cause
the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, not to assign, amend, abrogate, terminate, waive or fail to enforce any Participating Agency Agreement or any of its provisions.

4. **Selected Entity Results Agreements**

(a) To facilitate the implementation of Part I.3 of the Program, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to cause CEA to enter into an agreement (the Selected Entity Results Agreement) with each Selected Entity, all under terms and conditions acceptable to the Bank, which shall include, *inter alia*, the obligation of each Selected Entity to: (i) achieve implementation targets; (ii) comply with the provisions of the Anti-Corruption Guidelines for the Program; and (iii) maintain and operate the water networks under their administrative jurisdiction.

(b) The Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to cause CEA to exercise its rights and carry out its obligations under each Selected Entity Results Agreement in such manner as to protect the interests of the Operation Implementing Entity and the Bank and to accomplish the purposes of the Program Loan. Except as the Bank shall otherwise agree, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to cause CEA not to assign, amend, abrogate, terminate, waive or fail to enforce any Selected Entity Results Agreement or any of its provisions.

5. **Operational Manual**

(a) Without limitation on the generality of Part A of this Section I, and unless the Bank shall otherwise agree, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to carry out the Program in accordance with the provisions of the Operational Manual.

(b) Except as the Bank shall otherwise agree, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, not to amend, waive or fail to enforce any provision of the Operational Manual without the Bank’s prior written consent. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.
6. **Additional Program Implementation Arrangements**

Without limitation on the generality of Part A of this Section I, and unless the Bank shall otherwise agree, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to: (a) carry out, the actions within the Program Action Plan which fall under its administrative jurisdiction; and (b) cause the Participating Agencies to carry out the actions within the Program Action Plan which fall under their administrative jurisdiction, all in accordance with the terms of the Program Action Plan and in a manner satisfactory to the Bank.

Section II.  **Excluded Activities**

The Borrower shall ensure, and cause the Operation Implementing Entity to ensure, that the Program excludes any activities which:

1. in the opinion of the Bank, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people; or

2. involve the procurement of: (a) works, estimated to cost $50,000,000 equivalent or more per contract; (b) goods, estimated to cost $30,000,000 equivalent or more per contract; (c) non-consulting services, estimated to cost $20,000,000 equivalent or more per contract; or (d) consultants’ services, estimated to cost $15,000,000 equivalent or more per contract.

Section III.  **Program Monitoring, Reporting and Evaluation; Audits**

A. **Program Reports**

The Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to monitor and evaluate the progress of the Program and prepare Program Reports in accordance with the provisions of Section 5.08 of the General Conditions for the Program. Each Program Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five days after the end of the period covered by such report.

B. **Program Financial Audits**

Without limitation on the generality of Section I.A of this Schedule 2 and Section 5.09 of the General Conditions for the Program, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to have the Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions for the Program. The
first audit of the Financial Statements shall cover the period from the Effective Date until the end of the following calendar year and each subsequent audit shall cover one fiscal year of the Borrower. 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.

C. Technical Audits

The Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to: (a) not later than December 31, 2014, hire independent verification agents under terms of reference satisfactory to the Bank, to carry out the verification of compliance of the DLIs; and (b) cause said independent verification agents to, not later than thirty days after each verification of compliance of the DLIs has been completed, prepare and furnish to the Borrower, the Operation Implementing Entity and the Bank, a report on the results of said verification of compliance process of such scope and in such detail as the Bank shall reasonably request.

Section IV. Withdrawal of Program Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Program Loan in accordance with the provisions of Article II of the General Conditions for the Program, this Section, and such additional instructions as the Bank may specify from time to time by notice to the Borrower to finance the Program Expenditures, on the basis of the results ("Disbursement Linked Results" or "DLRs") achieved by the Operation Implementing Entity, as measured against specific indicators ("Disbursement Linked Indicators" or "DLIs"); all as set forth in the table in paragraph 2 of this Part A.

2. The following table specifies each category of withdrawal of the proceeds of the Program Loan (including the Disbursement Linked Indicators as applicable) ("Category for the Program"), the Disbursement Linked Results for each Category for the Program (as applicable), and the allocation of the amounts of the Program Loan to each Category for the Program:
<table>
<thead>
<tr>
<th>Category for the Program (including Disbursement Linked Indicator as applicable)</th>
<th>Disbursement Linked Result</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) First DLI: 1. Modernization of the Operation Implementing Entity’s legal and regulatory framework governing the WSS sector.</td>
<td>1(a) A new Water Supply and Sanitation Bill of Law has been submitted to the Operation Implementing Entity’s Congress for approval thereby by December 31, 2017; 1(b) (i) Regulations for the Water Supply and Sanitation Law have been issued and are in force and effect; 1(b) (ii) Regulations for the provision of municipal water and sanitation services have been prepared; 1(b) (iii) The amendment to the SAPAO Law has been submitted to the Operation Implementing Entity’s Congress for approval thereby; 1(b) (iv) CEA has issued its updated internal regulations and its revised organizational manual which have been published and are in full force and effect; and</td>
<td>$2,000,000 $500,000 $500,000 $500,000</td>
</tr>
<tr>
<td>1 (b) (v) SAPAO has issued its updated internal regulations and its revised organizational manual which have been published and are in full force and effect.</td>
<td>$500,000</td>
<td></td>
</tr>
</tbody>
</table>

<p>| (2) Second DLI: |  |
| 2.1 Improvement of quality of water service. |  |
| 2.1 (i) SAPAO has prepared the <em>Expeditentes Técnicos</em> for the rehabilitation and/or construction of the Micro Distribution System and Macro Distribution System of the San Juan Chapultepec Sector by December 31, 2017. | $1,000,000 |
| 2.1 (ii) The components of the Macro Distribution System have been rehabilitated and/or constructed in the San Juan Chapultepec Sector in accordance with the <em>Expeditentes Técnicos</em> and are in operation: |  |
| (A) Component 1 | $1,000,000 |
| (B) Component 2 | $1,000,000 |
| (C) Component 3 | $1,000,000 |
| 2.1 (iii) Percentage of Active Users with Continuous Water Supply service in the San Juan Chapultepec Sector | $1,500,000/30 ($50,000) for each percentage point up to 30%; and (ii) $1,500,000/70 ($21,429) for each percentage point from 31% up to 100%, all up to an amount of |</p>
<table>
<thead>
<tr>
<th>2.2 Percentage of Commercial Efficiency in the provision of water supply service in the San Juan Chapultepec Sector from a baseline of 49%</th>
<th>N/A</th>
<th>$3,000,000. (i) $500,000/6 ($83,333) for each percentage point from 49% up to 55%; (ii) $500,000/15 ($33,333) for each percentage point from 56% up to 70%; and (iii) $500,000/20 ($25,000) for each percentage point from 71% up to 90%, all up to an amount of $1,500,000.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(3) Third DLI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1 Number of water utilities operating in Selected Secondary Towns that have a Program of Interventions of Immediate Impact by December 31, 2017.</td>
<td>N/A</td>
<td>$2,000,000/18 ($111,111) per each water utility up to $2,000,000.</td>
</tr>
<tr>
<td>3.2 Number of water utilities operating in Selected Secondary Towns with Improved Service Continuity.</td>
<td>N/A</td>
<td>(i) $3,500,000/3 ($1,166,666) for each water utility up to 3; and (ii) $3,500,000/5 ($700,000) for each water utility from 4 up to 18, all up to $14,000,000.</td>
</tr>
<tr>
<td>3.3 Number of water utilities operating in Selected Secondary Towns whose Revenue from Services is greater than their Operating Expenses.</td>
<td>N/A</td>
<td>(i) $3,500,000/3 ($1,166,666) for each water utility up to 3; and (ii) $3,500,000/5 ($700,000) for each water utility from 4 up to 18 all up to $14,000,000</td>
</tr>
</tbody>
</table>
(4) Fourth DLI

4. Percentage of Selected Rural Areas with information integrated in the Rural Water and Sanitation Information System in accordance with its data collection form. | N/A | $20,000 per each percentage point up to $2,000,000.

TOTAL AMOUNT | $45,000,000

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

   (a) from the Program Loan Account until the Bank has received payment in full of the Front-end Fee.

   (b) for purposes of Section 2.05 of the General Conditions, for payments for Program Expenditures made prior to the date of this Agreement.

   (c) for any DLR referred to in the table in Part A.2 of this Section, until and unless the Borrower has furnished evidence satisfactory to the Bank that said DLR has been achieved on terms and in a manner acceptable to the Bank.

   (d) for DLRs 1(b)(i), 1(b)(ii), 1(b)(iii), 1b(iv) and 1(b)(v) even if said DLRs have been met prior to DLR 1 (a), until and unless the Borrower has furnished evidence satisfactory to the Bank that DLR 1 (a) has been achieved on terms and in a manner acceptable to the Bank.

   (e) for DLR 2.1(ii) even if said DLR has been met prior to DLR 2.1 (i), until and unless the Borrower has furnished evidence satisfactory to the Bank that DLR 2.1 (i) has been achieved on terms and in a manner acceptable to the Bank.

2. Notwithstanding the provisions of Part B.1 of this Section the Borrower may withdraw an amount not to exceed the equivalent of $11,250,000 as an advance; provided, however, that if any DLR set forth in the table in Part A.2 of this Section is in the opinion of the Bank, not achieved or is only partially achieved by the Closing Date, the Borrower shall promptly refund to the Bank such advance, or any portion of such advance as determined by the Bank, upon notice.
thereof from the Bank. Except as otherwise agreed with the Borrower, the Bank shall cancel the amount so refunded. Any further withdrawals requested as an advance under any Category for the Program shall be permitted only on such terms and conditions as the Bank shall specify by notice to the Borrower.

3. The Closing Date is December 31, 2019.

4. Notwithstanding the foregoing provisions of this Section IV, if at any time after the Closing Date the Borrower has failed to provide evidence satisfactory to the Bank that the Withdrawn Program Loan Balance does not exceed the total amount of Program Expenditures paid by the Borrower, exclusive of any such expenditures financed by any other financier or by the Bank or the Association under any other loan, credit or grant, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such excess amount of the Withdrawn Program Loan Balance. The Bank shall cancel the refunded amount of the Withdrawn Loan Balance.
SCHEDULE 3

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

The Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to carry out the Project through SEFIN, and to operate, at all times, during the implementation of the Project, with powers, functions, capacity and resources satisfactory to the Bank to discharge such functions under the Project.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Project Loan available to the Operation Implementing Entity through the Subsidiary Agreement, under terms and conditions approved by the Bank in respect of the Project.

2. The Borrower shall exercise its rights and carry out its obligations in respect of the Project under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, terminate, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Implementation Agreements

1. To facilitate the carrying out of the Project, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to make part of the proceeds of the Project Loan available to the each of the Participating Agencies under the pertinent Participating Agency Agreement, under terms and conditions approved by the Bank in respect of the Project, which shall include, inter alia, the obligation of each Participating Agency to: (a) carry out the activities which fall within its administrative jurisdiction under the Project in accordance with the pertinent provisions set forth in Article V of the General Conditions for the Project; and (b) comply with the pertinent provisions of this Schedule as applicable to said Participating Agency, including compliance with the provisions of the Anti-Corruption Guidelines for the Project.

2. The Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, exercise its rights and carry out its
obligations under each Participating Agency Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project Loan. Except as the Bank shall otherwise agree, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, not assign, amend, abrogate, terminate, waive or fail to enforce any Participating Agency Agreement or any of its provisions.

D. Operational Manual

1. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank may otherwise agree, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to carry out the Project in accordance with the provisions of the Operational Manual.

2. Except as the Bank shall otherwise agree, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, not to amend, waive or fail to enforce any provision of the Operational Manual without the Bank's prior written consent. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

E. Anti-Corruption

Without limitation on the provisions of Part A of this Section, the Borrower shall: (a) carry out its obligations under this Agreement in accordance with the provisions of the Anti-Corruption Guidelines for the Project; and (b) cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to carry out the Project in accordance with the provisions of the Anti-Corruption Guidelines for the Project.

F. Safeguards

The Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to ensure that the terms of reference for non-consulting services and for consultants' services under such activities of the Project be satisfactory to the Bank following its review thereby, and to that end said terms of reference shall incorporate the requirements of the Bank Safeguards Policies then in force and as applicable, all in a manner satisfactory to the Bank.
Section II.  

**Project Monitoring Reporting and Evaluation**

A.  **Project Reports**

The Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions for the Project and on the basis of indicators acceptable to the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five days after the end of the period covered by such report.

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

1.  The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions for the Project.

2.  Without limitation on the provisions of Part A of this Section, the Borrower shall cause the Operation Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to prepare and furnish to the Bank not later than forty five days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.

3.  The Borrower shall cause the Operating Implementing Entity, pursuant to the provisions of the Subsidiary Agreement, to have the Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions for the Project. The first audit of the Financial Statements shall cover the period from the Effective Date until the end of the following calendar year and each subsequent audit shall cover one fiscal year of the Borrower. 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 and Non-consulting Services.** All goods and non-consulting services required for the Project and to be financed out of the proceeds of the Project 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 out of the proceeds of the Project 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

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

1. **National Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded on the basis of National Competitive Bidding procedures.

2. **Other Methods of Procurement of Goods and Non-consulting Services.** The following methods, other than National Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (a) Shopping; and (b) 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 methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants' Qualifications; and (e) Single-source Selection of consulting firms.

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.

E. **Special Provisions**

The Borrower through SEFIN shall: (a) supply the SEPA with the information contained in the initial Procurement Plan within 30 days after the date of this
Agreement; and (b) update the Procurement Plan at least once a year, or as required by the World Bank, to reflect the actual Project implementation needs and progress, and supply the SEPA with the information contained in the updated Procurement Plan immediately thereafter.
Section IV. Withdrawal of Project Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Project Loan in accordance with the provisions of Article II of the General Conditions for the Project, this Section, and such additional instructions as the Bank shall 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), to finance the Project Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Project Eligible Expenditures that may be financed out of the proceeds of the Project Loan (“Category for the Project”), the allocation of the amounts of the Project Loan to each Category for the Project, and the percentage of expenditures to be financed for Project Eligible Expenditures in each Category for the Project.

<table>
<thead>
<tr>
<th>Category for the Project</th>
<th>Amount of the Project Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods, consultants’ services, Non-consulting services, Training and Operating Costs for the Project</td>
<td>$10,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>$10,000,000</td>
<td></td>
</tr>
</tbody>
</table>

For purposes of this paragraph the terms:

(a) “Operating Costs for the Project” means incremental operating costs incurred by the Operation Implementing Entity on account of Project implementation, management and monitoring; and

(b) “Training” means Operation related study tours, training courses, seminars, workshops and other training activities, not included under goods or service providers’ contracts, including costs of training materials, space and equipment rental, travel, accommodation and per diem costs of trainees and trainers, trainers’ fees, and other training related miscellaneous costs.
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

   (a) from the Project Loan Account until the Bank has received payment in full of the Front-end Fee for the Project Loan; or

   (b) for payments made prior to the date of this Agreement.

2. The Closing Date is December 31, 2019.
SCHEDULE 4

Amortization Schedule for the Program

1. The following table sets forth the Principal Payment Dates of the Program Loan and the percentage of the total principal amount of the Program Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Program Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Program Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Program Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each June 15 and December 15 Beginning June 15, 2019 Through June 15, 2031</td>
<td>3.85%</td>
</tr>
<tr>
<td>On December 15, 2031</td>
<td>3.75%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Program Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Program Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Program Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Program Loan withdrawn 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, if at any time the Bank adopts 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 Program Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (a) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (b) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Program Loan Balance is denominated in more than one Program Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Program Loan Currency, so as to produce a separate amortization schedule for each such amount.
SCHEDULE 5

Amortization Schedule for the Project

1. The following table sets forth the Principal Payment Dates of the Project Loan and the percentage of the total principal amount of the Project Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Project Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Project Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Project Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each June 15 and December 15 Beginning June 15, 2019 Through June 15, 2031</td>
<td>3.85%</td>
</tr>
<tr>
<td>On December 15, 2031</td>
<td>3.75%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Project Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Program Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Project Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Project Loan withdrawn 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, if at any time the Bank adopts 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 Project Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (a) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (b) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Project Loan Balance is denominated in more than one Project Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Project Loan Currency, so as to produce a separate amortization schedule for each such amount.
APPENDIX

Section I. Definitions

1. “Active Users” means customers which have a service contract with SAPAO to receive piped water supply service.


4. “Bank Safeguards Policies” means the Bank’s operational policies and procedures, set forth in the Bank’s operational manual and identified as OP/BP 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60, as said manual is published under www.worldbank.org/opmanual.


6. “Category for the Program” means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.

7. “Category for the Project” means a category set forth in the table in Section IV.A.2 of Schedule 3 to this Agreement.

8. “CEA” means Comisión Estatal del Agua, the Operation Implementing Entity’s State Water Commission created pursuant to the Operation Implementing Entity’s Decree No. 5, dated December 4, 2004, as amended to the date of this agreement.

9. “Commercial Efficiency” means the ratio between the water utilities’ revenues collected and the cost of providing water service, as measured in accordance with the provisions set forth in the Operational Manual.

11. "Continuous Water Supply" means the reliability of water supply service provided by SAPAO in the San Juan Chapultepec Sector, which is measured in accordance to a methodology set forth in the Operational Manual.

12. "Disbursement Linked Indicator" or "DLI" means in respect of a given Category for the Program, the indicator related to said Category for the Program as set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.

13. "Disbursement Linked Result" or "DLR" means in respect of a given Category for the Program, the result under said Category for the Program as set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement, on the basis of the achievement of which, the amount of the Program Loan allocated to said result may be withdrawn in accordance with the provisions of said Section IV.

14. "Expedientes Técnicos" means a set of documents to be prepared by SAPAO comprising engineering studies, technical specifications, budget, social and environmental feasibility assessments and legal requisites such as deeds and property occupation agreements needed to assure the correct deployment of the bidding, contracting and construction processes for the carrying out of civil works under Part I.2 and I.3 of the Program.

15. "General Conditions" means the General Conditions for the Program and/or the General Conditions for the Project (as defined herein), as applicable.


18. "Improved Service Continuity" means the reliability of water supply service provided by water utilities operating in Selected Secondary Towns, which is measured in accordance to a methodology set forth in the Operational Manual.

19. "Micro Distribution System" means the micro distribution system of water service for the San Juan Chapultepec Sector which includes, inter alia, the Program activities under Part I. 2 (h) and I.2 (i) of the Program, and which are further defined in the Operational Manual.

20. "Macro Distribution System" means the macro distribution system of water service for the San Juan Chapultepec Sector which includes the following Program activities: (i) Component 1: the activities under Part I.2 (a), (b) and (c) of the Program; (ii) Component 2: the activities under Part I.2 (d) of the Program;
and (iii) Component 3: the activities under Part I.2 (e), (f) and (g) of the Program, all of which are further defined in the Operational Manual.

21. “Operating Expenses” means the expenses incurred by water utilities that are necessary for delivering WSS services, as calculated in accordance with the provisions are set forth in the Operational Manual.

22. “Operation” means the Program and the Project (as defined herein) jointly conceived as interrelated to each other.

23. “Operation Implementing Entity” means the State of Oaxaca, a political subdivision of the Guarantor, pursuant to article 43 of the Guarantor’s political constitution and articles 1, 26 and 28 of the Operation Implementing Entity’s political constitution.

24. “Operational Manual” means a manual, satisfactory to the Bank, which shall contain, inter alia, specific provisions on detailed arrangements for the carrying out of the Operation, including, inter alia:

(a) for the Program: (i) the verification protocol to check compliance with the DLRs; (ii) the detailed arrangements for disbursement of DLRs; (iii) the definition and methodology to calculate, as the case may be, the San Juan Chapultepec Sector, Commercial Efficiency, Continuous Water Supply, Improved Service Continuity, Micro Distribution System, Macro Distribution System, Operating Expenses, Program of Interventions of Immediate Impact, Revenue from Services, and Selected Entities; and (iv) the Program Action Plan; and

(b) for the Project: (i) the procedures for the carrying out, monitoring and evaluation of the Project; (ii) the Project procurement, financial management and audit requirements and procedures; (iii) the institutional arrangements for the Project; and (iv) the performance indicators for the Project.

25. “Participating Agency” means CEA and/or SAPAO, and the plural thereof means all of such agencies collectively.

26. “Participating Agency Agreement” means any of the agreements set forth in Sections I.C.3 (a) and I.C.1 of Schedules 2 and 3 of this Agreement, respectively.


28. “Procurement Plan” means the Operation Implementing Entity’s procurement plan for the Project, dated April 9, 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.

29. "Program" means the activities described in Part I of Schedule 1 to this Agreement.

30. "Program Action Plan" means the Operation Implementing Entity’s plan for the Program referred to in Section I.C.6 of Schedule 2 to this Agreement and set forth in the Operational Manual, as said plan may be amended from time to time with the agreement of the Bank.

31. "Program Fiduciary and Environmental and Social Systems" means the Operation Implementing Entity’s systems for the Program referred to in Section I.A of Schedule 2 to this Agreement.

32. "Program of Interventions of Immediate Impact" means the preparation of priority interventions in a Selected Secondary Town which includes, inter alia, the identification of priority measures to improve the continuity of water supply service and the coverage of expenditures by service revenues, the identification of priority measures to ensure the operation of tools necessary for measuring performance indicators, and the preparation of the Expendientes Técnicos corresponding to these priority measures, and which is further defined in the Operational Manual.

33. "Project" means the activities described in Part II of Schedule 1 to this Agreement.

34. "Revenue from Services" means all revenues resulting from the provision of WASS services, as calculated in accordance with the provisions set forth in the Operational Manual.

35. "Rural Water and Sanitation Information System" means the Sistema de Agua y Saneamiento Rural (SIASAR), or any other similar system acceptable to the Bank to be developed under Part I.4 of the Operation.

36. "San Juan Chapultepec Sector" means an area comprised of the Colonias listed in the Operational Manual, which receives WSS services by SAPAO.

37. "SAPAO" means Servicios de Agua Potable y Alcantarillado de Oaxaca, the Operation Implementing Entity’s Metropolitan Area Water Utility created pursuant to the SAPAO Law, as amended to the date of this Agreement.

38. "SAPAO Law" means the Operation Implementing Entity’s law (Ley del Organismo Operador Público denominado Servicios de Agua Potable y
*Alcantarillado de Oaxaca*, duly published in the Operation Implementing Entity’s official gazette on November 28, 2013.


40. “Selected Entity” means: (i) the municipalities within the Selected Secondary Towns which have the responsibility to operate the water networks within their jurisdiction; and (ii) water utilities with separate legal capacity operating in some Selected Secondary Towns; all listed in the Operational Manual.

41. “Selected Entity Results Agreement” means any of the agreements referred to in Section I.C.4 of Schedule 2 to this Agreement.

42. “Selected Rural Areas” means the localities within the State of Oaxaca with a population from 500 to 2,500 inhabitants.

43. “Selected Secondary Towns” means the towns of *Heroica Ciudad de Huajuapan de León, Loma Bonita, Mixhuatlán de Porfirio Díaz, Ocotlán de Morelos, San Juan Bautista Tututepec, Heroica Ciudad de Tlaxiaco, Zimatlán de Álvarez, Asunción Ixtaltepec, Ciudad Ixtepec, El Espinal, Heroica Ciudad de Juchitán de Zaragoza, Matías Romero Avenaño, Salina Cruz, San Francisco Telixtlahuaca, Puerto Escondido, Santiago Pinotepa Nacional, Santo Domingo Tehuantepec, Santo Domingo Zanatepec.*

44. “Selected Urban Areas” means the San Juan Chapultepec Sector and Selected Secondary Towns.

45. “SEPA” means the Bank’s Procurement Plan Execution System.

46. “Subsidiary Agreement” means the agreement (*Contrato de Apertura de Credito*) referred to in Section I.C.2 (a) and B.1 of Schedule 2 and 3 to this Agreement, respectively, pursuant to which the Borrower shall make the proceeds of the Program Loan and Project Loan available to the Operation Implementing Entity.

47. “WSS” means water supply and sanitation.

Section II. Modifications to the General Conditions for the Program

The modifications to the General Conditions for the Program are as follows:

1. Wherever used throughout the General Conditions for the Program, the term “Loan” is modified to read “Program Loan”, the term “Loan Account” is modified to read “the Program Loan Account”, the term “Loan Currency” is modified to read “Program Loan Currency”, the term “Loan Payment” is modified to read “Program Loan Payment”, the term “the Project” is modified to read “the Program”, the term “the Project Agreement” is modified to read “the Operation Agreement”, the term “Project Implementing Entity” is modified to read “the Operation Implementing Entity”, the term “Project Report” is modified to read “Program Report”, the term “Eligible Expenditures” is modified to read “Program Expenditures”, the term “Unwithdrawn Loan Balance” is modified to read “Unwithdrawn Program Loan Balance”; and the term “Withdrawn Loan Balance” is modified to read “Withdrawn Program Loan Balance”.

2. The terms “Program Loan Account”, “Withdrawn Program Loan Balance”, “Program Loan Payments” have the meanings ascribed to them in the General Conditions for the Program. The terms “Withdrawn Project Loan Balance”, “Project Loan Payments”, “Project Loan Account” have the meanings ascribed in the General Conditions for the Project.

3. In the Table of Contents, the references to Sections, Section names and Section numbers are modified to reflect the amendments set out below.

4. Section 2.02, Special Commitment by the Bank, is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.

5. In Section 2.02 (originally numbered as Section 2.03), the heading “Applications for Withdrawal or for Special Commitment” is replaced with “Applications for Withdrawal”, and the phrase “or to request the Bank to enter into a Special Commitment” is deleted.

6. The section originally numbered as Section 2.04, Designated Accounts is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.

7. Paragraph (a) of Section 2.03 (originally numbered as Section 2.05), Eligible Expenditures (renamed “Program Expenditures” in accordance with paragraph 1 of this Section II), is modified to read: “(a) the payment is for the financing of the reasonable cost of expenditures required for the Program and to be financed out of the proceeds of the Program Loan in accordance with the provisions of the Legal Agreements;”.

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8. The last sentence of Section 2.04 (originally numbered as Section 2.06), Financing Taxes, is modified to read: “To that end, if the Bank at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the Bank may, by notice to the Borrower, exclude such amount or such Tax from the Program Expenditures to be financed out of the proceeds of the Loan, as required to ensure consistency with such policy of the Bank.”

9. Section 2.06 (originally numbered as Section 2.08), Reallocation, the first paragraph is modified to read: “Notwithstanding any allocation of an amount of the Program Loan to a withdrawal category under the Loan Agreement, the Bank may, by notice to the Borrower, reallocate any other amount of the Program Loan to such category if the Bank reasonably determines at any time that such reallocation is appropriate for the purposes of the Program.

10. Section 7.01, Cancellation by the Borrower, is modified to read: “The Borrower may, by notice to the Bank, cancel any amount of the Unwithdrawn Program Loan Balance.”

11. Section 7.02. Suspension by the Bank. The first paragraph is modified to read: “If any of the events specified in paragraphs (a) through (m) of this Section occurs and is continuing, the Bank may, by notice to the Loan Parties, suspend in whole or in part the right of the Borrower to make withdrawals from the Program Loan Account and/or the Project Loan Account. Such suspension shall continue until the event (or events) which gave rise to the suspension has (or have) ceased to exist, unless the Bank has notified the Loan Parties that such right to make withdrawals has been restored.”

12. Paragraph (d) of Section 7.03, Cancellation by the Bank, entitled “Misprocurement”, is deleted, and subsequent paragraphs are relettered accordingly.

13. Section 7.04, Amounts Subject to Special Commitment not Affected by Cancellation or Suspension by the Bank, is deleted in its entirety, and subsequent Sections in Article VII and references to such Sections are renumbered accordingly.

14. Section 7.06. Events of Acceleration. The first paragraph is modified to read: “If any of the events specified in paragraphs (a) through (f) of this Section occurs and continues for the period specified (if any), then at any subsequent time during the continuance of the event, the Bank may, by notice to the Loan Parties, declare all or part of the Withdrawn Program Loan Balance and Withdrawn Project Loan Balance as at the date of such notice to be due and payable immediately together with any other Program Loan Payments and Project Loan Payments due under the Loan Agreement or these General Conditions.
Upon any such declaration, such Withdrawn Program Loan Balance, Withdrawn Project Loan Balance, Program Loan Payments and Project Loan Payments shall become immediately due and payable."

15. Section 9.05. Termination of Legal Agreements on Full Payment, is modified to read: "The Legal Agreements and all obligations of the parties under the Legal Agreements shall forthwith terminate upon full payment of the Withdrawn Program Loan Balance, Withdrawn Project Loan Balance, and all other Program Loan Payments and Project Loan Payments due."

16. In the Appendix, Definitions, all references to Section numbers are modified, as necessary, to reflect the modifications set forth above. In addition, the definition of the term "Special Commitment" is deleted in its entirety, and all subsequent paragraphs are renumbered accordingly.

Section III. Modifications to the General Conditions for the Project

The modifications to the General Conditions for the Project are as follows:

1. Wherever used throughout the General Conditions for the Project, the term "Loan" is modified to read "Project Loan, the term "Loan Account" is modified to read "the Project Loan Account", the term "Loan Currency" is modified to read "Project Loan Currency", the term "Loan Payment" is modified to read "Project Loan Payment", the term "the Project Agreement" is modified to read "the Operation Agreement", the term "Project Implementing Entity" is modified to read "Operation Implementing Entity", the term "Unwithdrawn Loan Balance" is modified to read "Unwithdrawn Project Loan Balance"; and the term "Withdrawn Loan Balance" is modified to read "Withdrawn Project Loan Balance".

2. The terms "Project Eligible Expenditure", "Project Loan Account", "Withdrawn Project Loan Balance", "Project Loan Payments" have the meanings ascribed to them in the General Conditions for the Project. The terms "Withdrawn Program Loan Balance", "Program Loan Payments", "Program Loan Account" have the meanings ascribed in the General Conditions for the Program.

3. Section 7.02. Suspension by the Bank. The first paragraph is modified to read: "If any of the events specified in paragraphs (a) through (m) of this Section occurs and is continuing, the Bank may, by notice to the Loan Parties, suspend in whole or in part the right of the Borrower to make withdrawals from the Project Loan Account and/or the Program Loan Account. Such suspension shall continue until the event (or events) which gave rise to the suspension has (or have) ceased to exist, unless the Bank has notified the Loan Parties that such right to make withdrawals has been restored."
4. Section 7.06. Events of Acceleration. The first paragraph is modified to read: “If any of the events specified in paragraphs (a) through (f) of this Section occurs and continues for the period specified (if any), then at any subsequent time during the continuance of the event, the Bank may, by notice to the Loan Parties, declare all or part of the Withdrawn Project Loan Balance and Withdrawn Program Loan Balance as at the date of such notice to be due and payable immediately together with any other Project Loan Payments and Program Loan Payments due under the Loan Agreement or these General Conditions. Upon any such declaration, such Withdrawn Project Loan Balance, Withdrawn Program Loan Balance, Project Loan Payments and Program Loan Payments shall become immediately due and payable.”

5. Section 9.05. Termination of Legal Agreements on Full Payment, is modified to read: “The Legal Agreements and all obligations of the parties under the Legal Agreements shall forthwith terminate upon full payment of the Withdrawn Project Loan Balance, Withdrawn Program Loan Balance, and all other Project Loan Payments and Program Loan Payments due.”