Loan Agreement

(Social Protection System in Health Project)

between

UNITED MEXICAN STATES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated March 30, 2010
LOAN AGREEMENT

Agreement dated March 30, 2010, between UNITED MEXICAN STATES ("Borrower") as represented by Secretaría de Hacienda y Crédito Público, its Ministry of Finance and Public Credit (SCHP), 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 of Schedule 2 to this Agreement and for purposes of supporting the Project described in Schedule 1 to this Agreement), shall be used in conformity with the requirements of the Borrower’s income, budgetary and public debt laws and the terms of this Agreement, 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. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one billion two hundred fifty million Dollars ($1,250,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. The Borrower’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section shall be notified in writing to the Bank by the Borrower.

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 interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR 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 (d) of the General Conditions.

2.05. The Payment Dates are January 15 and July 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.

2.07. (a) The Borrower may at any time request or cause NAFIN to request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in 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, or NAFIN (at the request of 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 SSA) shall carry out the Project and shall ensure that the States collaborate with the Borrower in order for the Borrower to fully comply with the obligations set forth in this Agreement, all of this in accordance with the provisions of Article V of the General Conditions. Except as the Borrower (through SSA) and the Bank shall otherwise agree, the Borrower 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, any of the parties to the Contrato de Mandato or to any of the Coordination Agreements shall have failed to perform any of its obligations under the Contrato de Mandato or under the relevant Coordination Agreement. Without limitation to the provisions of Section 7.02 of the General Conditions, the Bank may suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account.

4.02. The Additional Events of Acceleration consist of the following, namely, that any of the events 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) the Borrower, through SHCP and SSA, and NAFIN (in a separate legal opinion satisfactory to the Bank, issued by NAFIN counsel acceptable to the Bank), indicate that the Contrato de Mandato has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and NAFIN and is legally binding upon the Borrower and NAFIN in accordance with the Contrato de Mandato's terms.

5.02 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 September 16, 2011.

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 Currency Conversions 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 for the purposes of Section 10.01 of the General Conditions:

Secretaría de Hacienda y Crédito Público
Unidad de Asuntos Internacionales de Hacienda
Palacio Nacional
Edificio 12, segundo piso
Colonia Centro
06000 México, D.F.
Facsimile: 011-52-55-3688-1216

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 64145(MCI)
Facsimile: 1-202-477-6391
AGREED at Mexico City, Mexico, as of the day and year first above written.

UNITED MEXICAN STATES

By

Authorized Representative
Eduardo Rodriguez Reggadona
Titular de la Unidad de Crédito Público

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative
Gloria Il. Grandolini
Country Director
Colombia + Mexico
SCHEDULE 1

Project Description

The objectives of the Project are to (i) initially preserve and later expand the Popular Health Insurance’s coverage of people without contributory social security, and (ii) strengthen the capacity of the Commission and State Health Systems to effectively administer the entitlements of the Popular Health Insurance.

The Project consists of the following parts:

**Part 1: Popular Health Insurance’s Coverage of People without Contributory Social Security**

Financing of Eligible Federal Social Contributions to the premium of the Popular Health Insurance to initially preserve and later expand the Popular Health Insurance’s coverage of Eligible Beneficiaries.

**Part 2: Capacity of the Commission and of State Health Systems to Administer the Popular Health Insurance Entitlements**

(a) Financing of technical assistance to the Commission and to State Health Systems to (i) support enhancements in performance management in the administration of the Popular Health Insurance, and (ii) support State Health Systems in preparing and carrying out reforms in the administration of the Popular Health Insurance; said technical assistance to include, *inter alia*, the review and refinement of the federal monitoring and audit system, (including Coordination Agreements), assessments of the capacity of State Health Systems to monitor the delivery of health services to different groups of beneficiaries (including vulnerable groups), the development of instruments to capture and validate information, the development of performance benchmarks, the design of a disclosure policy for the Popular Health Insurance, the development of platforms to transfer experiences and knowledge across State Health Systems, and the development of financing mechanisms for technical assistance to State Health Systems to effectively carry out key health system functions, specially, their responsibilities as the administrators of the Popular Health Insurance.

(b) Financing of technical assistance to the Commission and to State Health Systems to improve the knowledge of Eligible Beneficiaries about their entitlements under the Popular Health Insurance; said technical assistance to include, *inter alia*, the design of a communication strategy with a focus on vulnerable groups, consultations with stakeholders, the development of communication tools, implementation support to State Health Systems, including training and supervision of the implementation of said communication strategy, the evaluation of communication pilots as well as evaluation of said communication pilots and communication strategy, including the review and development of surveys, data collection and data analysis.
(c) Financing of technical assistance to the Commission and to State Health Systems to strengthen their capacity to manage health risks; said technical assistance to include, *inter alia*, the design of a health risk management program, consultations with stakeholders, training and implementation support to State Health Systems, including the supervision of the implementation of said health risk management program, the evaluation of health risk management pilots and said health risk management program, including the design of surveys, data collection, and data analysis.

(d) Financing of technical assistance to allow the Commission coordinate and manage the Project; said technical assistance to include, *inter alia*, the training of staff in fiduciary and safeguard matters, the carrying out of annual external audits, and the carrying out of the activities included in the IPP.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower (through SSA) and the Bank may otherwise agree, the Borrower (through SSA) shall carry out the Project in accordance with the Operational Manual and shall ensure that the States collaborate with the Borrower in order for the Borrower to comply with the obligations set forth in this Agreement. Except as the Bank shall otherwise agree, the Borrower (through SSA) shall not amend, waive or fail to enforce any provision of the Operational Manual without the Bank's prior written approval. 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. The Borrower (through SSA) shall maintain an operational manual, satisfactory to the Bank, containing, \textit{inter alia}, specific provisions on detailed arrangements for the carrying out of the Project, including:

(a) the procurement, disbursement and financial management requirements for the Project;

(b) the IPP;

(c) the Performance Indicators;

(d) the eligibility criteria of Eligible Beneficiaries;

(e) the model form for, and key provisions of, the Coordination Agreements; and

(f) transparency and anticorruption provisions, including a provision stating that part of the funds for the Popular Health Insurance are provided by the Bank through this Agreement, and therefore establishing that all parties involved in the Popular Health Insurance agree to comply with the Anti-Corruption Guidelines.

3. The Borrower (through SSA) shall coordinate Project implementation through the Commission, and the Borrower (through SSA) shall assign personnel to coordinate the implementation of the Project in sufficient numbers and with experience and qualifications satisfactory to the Bank.

4. The Borrower (through SSA) shall maintain a separate Coordination Agreement, satisfactory to the Bank, with each of the States, whereby:

(a) the Borrower (through SSA agrees to, \textit{inter alia}, provide funds to assist in the financing of the premium of the Popular Health Insurance (including the Eligible Federal Social Contribution) within each State under Part 1 of the Project; and
(b) the State agrees to collaborate with the Borrower in the carrying out of the Project by, *inter alia*:

(i) providing its share of financing for the premium of the Popular Health Insurance, and

(ii) providing the services covered under the Popular Health Insurance.

5. The Borrower (through SSA, through a notification (*oficio*), satisfactory to the Bank, to be issued by the Commission) shall cause the States to abide by the IPP and the Anticorruption Guidelines and to collaborate with the Borrower in the carrying out of the Project.

6. The Borrower (through SSA) hereby declares that each Coordination Agreement has been duly authorized or ratified by, and executed and delivered by the Borrower (through SSA) and each State and is legally binding upon the Borrower and each State in accordance with the relevant Coordination Agreement’s terms.

B. **Contrato de Mandato**

1. The Borrower, through SHCP, shall enter into a contract (Contrato de Mandato), satisfactory to the Bank, among SSA and NAFIN, whereby, *inter alia*:

(a) the Borrower (through SSA) agrees to carry out the Project in accordance with the provisions of this Agreement (including the IPP and the Anti-Corruption Guidelines), and in the Operational Manual (including, the Project’s financial management and procurement arrangements);

(b) NAFIN agrees to 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 Schedule 2 to this Agreement) in compliance with the terms of this Agreement;

(c) NAFIN agrees to abide by the Anti-Corruption Guidelines;

(d) 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 funds transferred to NAFIN under said Contrato de Mandato; and

(e) the Borrower (through SSA) 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(b) above.

-10-
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. Except as the Bank may otherwise agree, the Borrower shall not amend, waive or fail to enforce any provision of the Contrato de Mandato. 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. Anti-Corruption

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 SSA 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, through a notification (oficio) to be issued by SSA (through the Commission), to take appropriate measures to prevent, inform on, respond to and investigate corrupt, fraudulent, collusive, coercive and obstructive practices with respect to the Project;

(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 the Borrower’s representatives (through SSA);

(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 SSA; and

(d) by agreeing to obtain restitution from any/or all of the States, as the case may be, of any 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/or any other means (including, but not limited to the Borrower’s rights under the Federal Budget and Fiscal Responsibility Law, the General Health Law, the General Public Debt Law, and the Monitoring and Accountability Law).

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

The Borrower shall 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 and on the basis of Performance Indicators. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.
B. Financial Management, Financial Reports and Audits

1. The Borrower (through SSA) shall maintain to maintain 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 SSA) 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 semester, in form and substance satisfactory to the Bank.

3. The Borrower (through SSA) shall have the Project 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.

4. The Borrower (through SSA (through the Commission)) shall prepare Statements of Affiliation Registry. The Statements of Affiliation Registry shall contain a list of all people registered as Eligible Beneficiaries in the Popular Health Insurance aggregated by month and by State. The Statements of Affiliation Registry shall be submitted by the Borrower to the Bank each time that the Borrower submits to the Bank a request to withdraw proceeds of the Loan as stated in Section IV of Schedule 2 to this Agreement.

5. The Borrower (through SSA) shall have the Statements of Affiliation Registry audited. Each audit of the Statements of Affiliation Registry shall cover the period of one fiscal year and shall be carried out by independent external auditors satisfactory to the Bank and under terms of reference satisfactory to the Bank. The audited Statements of Affiliation Registry 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-consultants’ Services. All goods and Non-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 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 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 SSA) shall: (a) supply the SEPA with the information contained in the initial Procurement Plan within 45 days after the Project has been approved by the Bank; 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 and Non Consultants’ Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and Non-consultants’ Services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. Other Methods of Procurement of Goods and Non Consultants’ Services. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and Non-consultants’ Services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>

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.
Procurement Method

<table>
<thead>
<tr>
<th>(a) Quality Based Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(c) Least-Cost Selection</td>
</tr>
<tr>
<td>(d) Selection Based on Consultants' Qualifications</td>
</tr>
<tr>
<td>(e) Single Source Selection</td>
</tr>
<tr>
<td>(f) Procedures set forth in paragraphs 5.2, 5.3 and 5.4 of the Consultant Guidelines for the selection of Individual Consultants</td>
</tr>
</tbody>
</table>

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 amounts as a result of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Eligible Federal Social Contributions to Health Insurance Premium under Part 1 of the Project</td>
<td>1,239,000,000</td>
<td>70%</td>
</tr>
<tr>
<td>(2) Goods Consultant Services, Non Consultant Services, Training and Operating Costs under Part 2 of the Project</td>
<td>7,875,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Front-end Fee</td>
<td>3,125,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(4) Premia for Interest Rate Caps and Interest rate Collars (amounts due under section 2.07 (c) of this Agreement)</td>
<td>-0-</td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>1,250,000,000</td>
<td></td>
</tr>
</tbody>
</table>

4. For purposes of this Section IV:

(a) the term “Eligible Federal Social Contributions to Health Insurance Premium” means the Eligible Federal Social Contribution under Part 1 of the Project;

(b) the term “Non Consultant Services” means the services required for printing, reproducing, publicizing and disseminating information materials under Part 2 of the Project;

(c) the term “Operating Costs” means the reasonable cost of recurrent expenditures for the implementation of Part 2 of the Project (excluding salaries) such as lodging and per diem and transportation costs, which would not have been incurred absent the Project; and

(d) the term “Training” means reasonable expenditures (other than those for consultants’ services) incurred by the Borrower for the purposes of the Part 2 of the Project and directly related to training activities described in Part 2 of the Project, including, inter alia, costs related to workshops, seminars, conferences, study tours, training registration fees, facility and equipment rentals, and local travel costs and per diems for the Borrower’s staff or consultants.
B. Withdrawal Conditions; Withdrawal Period

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

   (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $250,000,000 equivalent may be made for payments made before that date but after July 1, 2009 (but in no case made more than twelve (12) months prior to the date of this Agreement).

   (b) under Category 1 unless the notification (oficio) referred to in Section I.A.5 of Schedule 2 to this Agreement has been sent to the State to which Eligible Federal Social Contributions will be made.

2. The Closing Date is December 31, 2013.