Global Environment Facility
Grant Agreement

(Sustainable Rural Development Project)

Among

UNITED MEXICAN STATES

and

NACIONAL FINANCIERA, S.N.C.

and

FIDEICOMISO DE RIESGO COMPARTIDO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as an Implementing Agency of the Global Environment Facility

Dated May 14, 2009
GEF TRUST FUND GRANT NUMBER TF093134

GLOBAL ENVIRONMENT FACILITY
GRANT AGREEMENT

AGREEMENT dated May 14, 2009, entered into among:

UNITED MEXICAN STATES ("Recipient"), represented by its SHCP; and NACIONAL FINANCIERA S.N.C. ("NAFIN"), acting as the Recipient’s financial agent for purposes of the GEF Trust Fund Grant acting; and FIDEICOMISO DE RIESGO COMPARTIDO ("FIRCO"), acting as the Recipient’s executing agency for purposes of the GEF Trust Fund Grant; and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("World Bank" or "Bank"), acting as an implementing agency of the Global Environment Facility ("GEF").

WHEREAS the Recipient has also requested the Bank to provide additional financing for the Project and by an agreement of even date herewith between the Recipient and the Bank (the "Loan Agreement"), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to fifty million Dollars ($50,000,000) ("Loan").

NOW THEREFORE, the Recipient and the World Bank hereby agree as follows:

Article I
Standard Conditions; Definitions

1.01. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 20, 2006 ("Standard Conditions"), 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 Standard Conditions or in this Agreement.

Article II
The Project

2.01. The Recipient declares its commitment to the objective of the project described in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall cause SAGARPA’s FIRCO to carry out the project (pursuant to the Contrato de Apoyo Financiero No Reembolsable) in accordance with the provisions of Article II of the Standard Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient
shall cause SAGARPA’s FIRCO to ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**Article III**

**The Grant**

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to ten million five hundred thousand Dollars ($10,500,000) (“Grant”) to assist in financing the Project.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

**Article IV**

**Additional Remedies**

4.01. The Additional Event of Suspension referred to in Section 4.02 (i) of the Standard Conditions consists of the following, namely, that any of the parties to the Contrato de Apoyo Financiero No Reembolsable shall have failed to perform any of its obligations under the Contrato de Apoyo Financiero No Reembolsable.

**Article V**

**Effectiveness; Termination**

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

(b) The Contrato de Apoyo Financiero No Reembolsable has been entered into by the parties thereto and is in effect.

(c) NAFIN (in its legal opinion satisfactory to the Bank, issued by counsel acceptable to the Bank) and FIRCO (in its legal opinion satisfactory to the Bank, issued by counsel acceptable to the Bank), indicate that the Contrato de Apoyo Financiero No Reembolsable has been duly authorized or ratified by, and executed and delivered on behalf of, NAFIN and FIRCO, and is legally binding upon NAFIN and FIRCO in accordance with the Contrato de Apoyo Financiero No Reembolsable.
5.02. Without prejudice to the provisions of the Standard Conditions, this Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date 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 Grant which expire on August 24, 2010.

Article VI
Recipient’s Representative; Addresses

6.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Titular de la Unidad de Asuntos Internacionales de Hacienda of SHCP.

6.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Secretaría de Hacienda y Crédito Público
Unidad de Asuntos Internacionales de Hacienda
Palacio Nacional
Edificio 12 Piso 2
Colonia Centro
06000 México, D.F.

Facsímile: 011-52-55-3688-1216

6.03. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

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

UNITED MEXICAN STATES

By /s/ Ricardo Ochoa
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
acting as an Implementing Agency of the Global Environment Facility

By /s/ Axel van Trotsenburg
Authorized Representative

NACIONAL FINANCIERA, S.N.C.

By /s/ Enrique Nieto
Authorized Representative

FIDEICOMISO DE RIESGO COMPARTIDO

By /s/ Rodrigo Diez de Sollano
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to promote the adoption of environmentally sustainable technologies in agri-businesses.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Bank may agree upon from time to time to achieve its objective:

Part 1: Environmentally Sustainable Technologies in Agri-business

Promotion of the adoption of environmentally sustainable technologies in agri-business operating at the various stages of the production chain of agricultural products, including, *inter alia*:

(a) Modernization and rehabilitation of small and medium-sized agri-businesses to improve their environmental sustainability, with particular emphasis on energy consumption efficiency and/or renewable energy.

(b) Promotion of sustainable waste management and biomass conversion with potential use as energy.

Part 2: Investment and Production Support Services

Provision of technical assistance and training to Beneficiaries for:

(a) the preparation of investment business plans that would subsequently be submitted for Agri-business Sub-projects; and

(b) the implementation of Agri-business Sub-projects, with special reference to integration of energy efficient production and processing technologies in farms and agri-businesses.

Part 3: Institutional Strengthening

Provision of technical assistance, training and equipment to:

(a) strengthen the institutional capacity of SAGARPA and FIRCO to, *inter alia*: address climate change and environmental issues in the agricultural sector, assist in Project promotion and implementation and share lessons learned from Project implementation; and
(b) establish and operate pilot projects to demonstrate and validate energy efficient technologies.

Part 4: Project Management, Monitoring and Evaluation

Provision of technical assistance, training and equipment (as necessary) for, inter alia:

(a) the development and operation of a Project monitoring and evaluation system; and

(b) the strengthening of the IT in order to comply with its Project management and implementation responsibilities.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. 1. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the Bank may otherwise agree, the Recipient shall cause SAGARPA’s FIRCO to carry out the Project in accordance with the Operational Manual. Except as the Bank shall otherwise agree, the Recipient shall not amend or waive 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. (a) The Recipient shall cause SAGARPA’s FIRCO to maintain an operational manual, satisfactory to the Bank, containing, *inter alia*, specific provisions on detailed arrangements for the carrying out of the Project, including:

   (i) the procurement, financial management and disbursement requirements thereof;

   (ii) the criteria and methods for the selection, approval, implementation and monitoring of the Agri-business Sub-projects;

   (iii) a model Agri-business Sub-project Agreement;

   (iv) the EMP;

   (v) the IPF;

   (vi) the restrictive negative list for the selection of Agri-business Sub-projects; and

   (vii) the Key Performance Indicators.

3. The Recipient shall cause SAGARPA’s FIRCO to:

   (a) maintain, in SAGARPA’s FIRCO, at all times during Project implementation, a Project implementation team, within SAGARPA’s FIRCO regular structure, with a structure, functions and responsibilities acceptable to the Bank, including,
inter alia, the responsibility of said team to coordinate and monitor the carrying out of the Project;

(b) ensure that the IT is, at all times during Project implementation, led by a Project coordinator who is assisted by adequate professional and administrative staff (including procurement and financial specialists), in numbers and with experience and qualifications acceptable to the Bank, operating under terms of reference satisfactory to the Bank;

(c) maintain at all times during Project implementation a Sub-project evaluation mechanism with responsibilities and functions satisfactory to the Bank, including, inter alia, defining the rules and procedures that govern presentation and selection of Agribusiness Sub-projects and follow-up of Agribusiness Sub-project implementation.

4. Prior to the disbursement of an Agri-business Grant, the Recipient shall cause SAGARPA’S FIRCO to enter into a sub-project agreement with a Beneficiary for the financing of an Agri-business Sub-project, under terms and conditions acceptable to the Bank (as outlined in the Operational Manual), including, inter alia, the right of the Recipient and the Bank to:

(a) suspend or terminate the right of any Beneficiary to receive or use the Agri-business Grant; and

(b) obligate any Beneficiary to refund all or any part of the amount of the Agri-business Grant, upon the Beneficiary’s failure to perform any of its respective obligations under the relevant Sub-project Grant Agreement.

B. Contrato de Apoyo Financiero No Reembolsable

1. NAFIN shall enter into a contract (Contrato de Apoyo Financiero No Reembolsable) with SAGARPA’s FIRCO, satisfactory to the Bank, whereby:

(a) NAFIN agrees to act as financial agent of the Recipient with regard to the Grant, meaning that, inter alia, NAFIN agrees to represent the Recipient vis-à-vis the Bank for purposes of submitting Grant withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Recipient of Grant 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; and
(b) the Recipient shall, and shall cause, SAGARPA’s FIRCO to cooperate fully with NAFIN to ensure that NAFIN is able to comply with all of NAFIN’s obligations referred to in paragraph (a) of this Section.

2. NAFIN shall exercise its rights and carry out its obligations under the Contrato de Apoyo Financiero No Reembolsable in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Grant. Except as the Bank may otherwise agree, the Recipient shall not amend or fail to enforce any provision of the Contrato de Apoyo Financiero No Reembolsable. In case of any conflict between the terms of the Contrato de Apoyo Financiero No Reembolsable and those of this Agreement, the terms of this Agreement shall prevail.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Recipient shall cause SAGARPA’s FIRCO to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators agreed with the World Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

2. The Recipient shall cause SAGARPA’s FIRCO to prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall cause SAGARPA’s FIRCO to ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall cause SAGARPA’s FIRCO to ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.
3. The Recipient shall cause SAGARPA’s FIRCO to have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. Goods and Works. All goods and works required for the Project and to be financed out of the proceeds of the Grant 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 Grant 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 Recipient shall cause SAGARPA’s FIRCO to: (a) supply the SEPA with the information contained in the initial Procurement Plan within 30 days after the Project has been approved by the Bank; and (b) update the Procurement Plan at least every six months, or as required by the 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.

B. Particular Methods of Procurement of Goods and Works

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

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

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Least Cost Selection</td>
</tr>
<tr>
<td>(b) Selection Based on Consultant’s Qualifications</td>
</tr>
<tr>
<td>(c) Single-Source Selection</td>
</tr>
<tr>
<td>(d) Commercial Practices</td>
</tr>
<tr>
<td>(e) Procedures set forth in paragraphs 5.2 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 Grant Proceeds

A. General

1. The Recipient may, or may cause NAFIN to withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions, (b) this Section, and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 3 below.
2. The Recipient’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the Director Internacional of NAFIN, or any person or person whom he or she shall designate in writing.

3. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant 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 Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, consultants services and Training, other than those financed by the Loan Agreement</td>
<td>4,750,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Agri-business Grants, other than those financed by the Loan Agreement</td>
<td>4,800,000</td>
<td>100% of the federal contribution for goods, works and services required for an Agri-business Sub-project</td>
</tr>
<tr>
<td>(3) Operating costs</td>
<td>950,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>10,500,000</td>
<td></td>
</tr>
</tbody>
</table>

For purposes of this Section, the term “Operating Costs” means the reasonable costs of communications, office supply and utilities, travel and per diem directly related to the performance of the Project activities, all which would not have been incurred absent the Project.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $1,050,000 equivalent may be made for payments made within twelve (12) months prior to the date of this Agreement, but in no case prior to September 1, 2008, for Eligible Expenditures.
2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2013.
APPENDIX

Definitions

1. “Agri-business Grant” means a monetary transfer made, or proposed to be made, (pursuant to a Sub-project Grant Agreement (as hereinafter defined)) by the Recipient out of the proceeds of the Grant to a Beneficiary for the partial financing of an Agri-business Sub-project (as hereinafter defined) in accordance with the criteria and procedures set forth in the Operational Manual (as hereinafter defined).

2. “Agri-business Sub-projects” means a set of activities, including the provision of works, goods, and services, carried out in support of the purposes specified in Part 1 of the Project, which set is selected, approved and implemented in accordance with the requirements of the Operational Manual.


4. “Beneficiary” means an eligible small or medium size agri-business with legal personality operating at the various stages of the production chain of agricultural products, which incorporates environmentally sustainable technologies into its business and which has met the eligibility criteria specified in the Operational Manual (as hereinafter defined), and as a result, has been granted or is eligible to be granted an Agri-business Grant.

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


7. “Contrato de Apoyo Financiero No Reembolsable” means the contract referred to in Section I. B of Schedule 2 to this Agreement, as the same may be amended from time to time.

8. “EMP” means the environmental impact framework for the Project, dated August 26, 2008, that contains specific environmental rules and procedures for the Project, including those rules and procedures for the Agri-business Sub-projects, as said framework may be updated from time to time by agreement between the Recipient and the Bank.
9. “FIRCO” means *Fideicomiso de Riesgo Compartido*, a Recipient’s trust assisting SAGARPA (as hereinafter defined) as an agency for the promotion of agribusiness, established by Presidential Decree and governed by *Decreto que Regula el Fideicomiso de Riesgo Compartido*, published in the Recipient’s Official Gazette (*Diario Oficial de la Federación*) on August 6, 2004.


11. “IT” means the Project implementation team referred to in Section I.A.3 of this Agreement.

12. “Key Performance Indicators” means the indicators for monitoring and evaluating progress towards the attainment of the Project’s objective.

13. “NAFIN” means *Nacional Financiera, S.N.C.* a Mexican development bank serving as the Recipient’s financial agent for purposes of the Grant.


16. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated November 20, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.


18. “SEPA” means the Bank’s publicly accessible Procurement Plans Execution System.


20. “Sub-project Grant Agreement” means any of the agreements referred to in Section I.A.4 of Schedule 2 to this agreement.