Mr. Enrique Arnaud Viñas  
Secretario de Finanzas  
Estado de Oaxaca  
Centro Administrativo del Poder Ejecutivo y Judicial  
General Porfirio Díaz “Soldado de la Patria”, Edificio D. Saúl Martínez  
Av. Gerardo Pandalf No.1.  
Reyes Mantecón, San Bartolo Coyotepec  
Oaxaca, México  

Mr. Gerardo Albino González  
Coordinador General del Comité Estatal de Planeación para el Desarrollo de Oaxaca  
Centro Administrativo del Poder Ejecutivo y Judicial  
General Porfirio Díaz “Soldado de la Patria”, Edificio María Sabina, Nivel 2  
Av. Gerardo Pandalf No. 1  
Reyes Mantecón, San Bartolo Coyotepec  
Oaxaca, México  

Re: STATE OF OAXACA: Support to Strengthen the Micro-Region Strategy in Oaxaca Project  
IDF Grant No. TF016613  

Dear Sirs:  

In response to the request for grant assistance made on behalf of the *Estado de Oaxaca* (*Recipient*) of the United Mexican States (*Member Country*), I am pleased to inform you that the International Bank for Reconstruction and Development (*World Bank*) proposes to extend to the Recipient a grant from the World Bank’s Institutional Development Fund (*IDF*) in an amount not to exceed five hundred and twenty-eight thousand United States Dollars (U.S.$528,000) (*Grant*) on the terms and conditions set forth or referred to in this letter agreement (*Agreement*), which includes the attached Annex, to assist in the financing of the project described in the Annex (*Project*).  

The Recipient represented by its *Secretaría de Finanzas* and the General Coordination of the Development Planning State Committee of Oaxaca (Coordinación General del Comité Estatal de Planeación para el Desarrollo de Oaxaca) (*Executing Entity*) represent, by confirming their agreement below, that they are authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.  

Please confirm the Recipient’s and the Executing Entity’s agreement to the foregoing by having an authorized official of the Recipient and the Executing Entity each sign and date the enclosed copy of this Agreement, and returning it to the World Bank.
Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date specified by the World Bank in accordance with Article V of the Annex to this Agreement; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within thirty (30) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Gerardo Corrochano
Director
Colombia and Mexico
Latin America and the Caribbean Region

AGREED:

ESTADO DE OAXACA
Secretaría de Finanzas

By: [Signature]

Authorized Representative

Name: Enrique Celso Arnaud Vivias
Title: Secretario de Finanzas
Date: 15 de Octubre 2014

ESTADO DE OAXACA
Coordinación General del Comité Estatal de Planeación para el Desarrollo de Oaxaca

By: [Signature]

Authorized Representative

Name: Gerardo Albino González
Title: Coordinador General
Date: 15 de Octubre 2014
ON WITNESS THEREOF:

UNITED MEXICAN STATES
Secretaría de Hacienda y Crédito Público

By: [Signature]

Authorized Representative

Name: María de los Ángeles C. González Miranda

Title: Unidad Asuntos Internacionales - Titular

Date: 28-10-14

Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.

(3) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011.


Article I
Standard Conditions; Definitions


1.02. **Definitions.** 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 as follows:

(a) “MDC” means a Micro-Region Development Council in charge of coordinating activities carried out in a Micro-Region, comprised of key local actors of the member municipalities, including majors and representatives of civil society, representatives of rural and productive organizations or any other successor acceptable to the World Bank.

(b) “Micro-Region” means a group of municipalities within a state of the Member Country that are grouped together according to, *inter alia*, specific characteristics in common, biodiversity, commerce, productive specializations and ethnic profiles.

(c) “Pilot Micro-Regions” means two (2) Micro-Regions within the territory of the *Estado de Oaxaca* that the Executing Entity has selected for the purposes of this Project in a manner acceptable to the World Bank.

(d) “PIU” means the Project Implementation Unit established within the Executing Entity referred to in Section 2.02(a) of this Agreement.


Article II
Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to enhance the capacity of the Pilot Micro-Regions to plan and execute social and productive subprojects by: (a) supporting the legal establishment of MDCs within the Pilot Micro-Regions; (b) setting up technical units within each Pilot Micro-Region to provide technical and operational support; (c) strengthening the planning and coordination mechanisms of both Pilot Micro-Regions to implement social and productive subprojects; and d) establishing a monitoring and information system to allow for continuous supervision and systematization of knowledge for possible expansion of the pilot to other Micro-Regions.
The Project consists of the following parts:


Enhancing the capacity of MDCs of the Pilot Micro-Regions to lead a Micro-Region strategy through:

(a) the provision of technical assistance to support the legal establishment of MDCs in the Pilot Micro-Regions aiming at ensuring micro-regional autonomy, facilitating strategic planning and decision-making at the Micro-Region level, enabling negotiation and coordination beyond territorial limits, channeling resources and decentralizing competencies to the Pilot Micro-Regions; and

(b) the creation of technical units to provide specialized technical and advisory services to the Pilot Micro-Regions, increasing their organizational, administrative, legal, operative and technical capacities to face development issues.

Part 2: Development and Implementation of Micro-Region Strategy Tools

Developing and implementing Micro-Region’s strategy tools, through:

(a) The provision of technical assistance and the carrying out of workshops to support the development and piloting of a planning and financial methodology, including, inter alia: guidelines on the identification of the population needs in the Micro-Regions (including any special needs of indigenous peoples); the definition of priorities, actors and responsibilities; the development of binding agreements between intervening actors; planning and scheduling for actions and subprojects; and the identification and allocation of necessary funds.

(b) The development and piloting of a monitoring and information system, with the purpose of helping the Micro-Regions to be more organized, efficient, transparent and accountable.

(c) The design and implementation of intermediate and process evaluations of the subprojects undertaken by the Pilot Micro-Regions.

Part 3: Lessons Learned and Knowledge Sharing

(a) Preparing a report documenting lessons learned from the Pilot Micro-Regions’ experience, including an assessment of the activities carried out under Parts 1 and 2 of the Project.

(b) Carrying out various knowledge sharing activities on national and international best practices on territorial development.
Part 4: Strengthening of the Executing Entity

Providing support to the Executing Entity’s PIU to effectively manage the Project through the financing of capacity building activities and Project audits.

2.02. Project Execution Generally. (a) The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient, through its Secretaria de Finanzas, and the Executing Entity, through the PIU, shall carry out the Project in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

(b) (i) The Recipient shall maintain, within the Secretaria de Finanzas, until completion of the execution of the Project, professional staff in adequate numbers and with terms of reference, qualifications and functions acceptable to the World Bank, to perform Project’s related functions, including, inter alia, financial management; and (ii) the Executing Entity shall maintain, within the PIU, professional staff in adequate numbers and with terms of reference, qualifications and functions acceptable to the World Bank, including, inter alia, a Project coordinator, procurement and financial management specialists and social specialists with experience working with indigenous peoples.

(c) Without limitation to the provision of Sections 2.02(a) and (b) above: (i) the Recipient, through its Secretaria de Finanzas, shall promptly provide, in-kind contributions, as needed, for inter alia, counterpart staff time and administrative support; and (ii) the Executing Entity, through the PIU, shall promptly provide, in-kind contributions, as needed, for inter alia, office and training facilities, counterpart staff time, administrative support and local transportation, all in accordance with a criteria acceptable to the World Bank.

2.03. Safeguards.

(a) The Executing Entity, through the PIU, shall, prior to the carrying out of any activity under the Project: (i) prepare and furnish to the World Bank an indigenous peoples strategy, acceptable to the World Bank, which shall be publicly disclosed and incorporate, inter alia, the principles of the World Bank’s Indigenous Peoples Policy; (ii) carry out consultations in accordance with said strategy; (iii) take into account the recommendations resulting from said consultations, including the World Bank’s recommendations, if any, on the design of a methodology to be applied in connection with the carrying out of any activity mentioned above, all under terms and in a manner acceptable to the World Bank; and (iv) immediately thereafter, carry out each activity in accordance with the terms of said methodology and in a manner acceptable to the World Bank.

(b) The Executing Entity, through the PIU, shall ensure that all terms of reference for any technical assistance or studies carried out under the Project pursuant to Section 2.01 of this Agreement are consistent with, and pay due attention to, the World Bank’s Safeguards Policies, as well as the Member Country’s own laws relating to the environment and social aspects.

2.04. Project Monitoring, Reporting and Evaluation. (a) The Executing Entity, through the PIU, shall monitor and evaluate the progress of the Project and, upon the World Bank’s request, prepare Project Reports, in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall...
cover such period as shall be indicated in the World Bank’s request and shall be furnished to the World Bank not later than forty five (45) days after the date of such request.

(b) The Executing Entity, through the PIU, upon the World Bank’s request, shall 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 five (5) months after the Closing Date.

2.05. Financial Management. (a) The Recipient, through its Secretaria de Finanzas and the Executing Entity, through the PIU, shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Executing Entity, through the PIU, shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report 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.

(c) The Executing Entity, through the PIU, shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. The first audit of the Financial Statements shall cover the period from the Effective Date until the end of the following calendar year, and the final audit shall cover the remaining period up to the Closing Date. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.06. Procurement

(a) General. All goods, non-consulting services and 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:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods and non-consulting services;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Executing Entity for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World 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.
(c) Particular Methods of Procurement of Goods and Non-consulting Services. Goods and non-consulting services shall be procured under contracts awarded on the basis of Shopping.

(d) Particular Methods of Procurement of Consultants’ Services

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments 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; (E) Single-source Selection of consulting firms; (F) Selection of consultants under Indefinite Delivery Contract or Price Agreement; (G) Selection of Individual Consultants; and (H) Single-source procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may 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 following table. The 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>Goods, Non-consulting Services, Consultants’ Services and Training and Workshops</td>
<td>528,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>528,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section, the term “Training and Workshops” means the reasonable costs, as shall have been approved by the World Bank, for training and workshops conducted under the Project, including travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course and workshop preparation and implementation (but excluding goods and consultants’ services).
3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient and the Executing Entity.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three (3) years after the date of countersignature of this Agreement by the Recipient and the Executing Entity.

**Article IV**

**Termination**

4.01. **Termination for Lack of Implementation or Disbursement.** This Agreement and its obligations shall terminate if, by February 5, 2015, the World Bank has not received evidence that the Executing Entity: (a) has signed any consulting services contract required for the Project; or (b) has requested a withdrawal of Grant proceeds; unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

**Article V**

**Effectiveness**

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the execution and delivery of this Agreement on behalf of the Recipient, through its *Secretaria de Finanzas*, and on behalf of the Executing Entity have been duly authorized or ratified by all necessary governmental and corporate action.

5.02. As part of the evidence to be furnished pursuant to Sections 5.01, there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank showing on behalf of the Recipient, through its *Secretaria de Finanzas*, and the Executing Entity that this Agreement has been duly authorized or ratified by, and executed and delivered on their behalf and is legally binding upon them in accordance with its terms.

5.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect upon the date upon which the World Bank dispatches to the Recipient and the Executing Entity a notice of its acceptance of the evidence required pursuant to Section 5.01 ("Effective Date"). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Agreement if this Agreement had been effective, the World Bank may postpone the dispatch of the notice so referred to in this Section until such event (or events) has (or have) ceased to exist.

**Article VI**

**Recipient’s Representative; Addresses**

6.01. **Recipient’s Representative.** The Recipient’s Representatives referred to in Section 7.02 of the Standard Conditions are the Recipient’s Secretary of Finance and the Executing Entity’s General Coordinator acting jointly under this Agreement.
6.02. **Recipient’s Address.** The Recipient’s Addresses referred to in Section 7.01 of the Standard Conditions are:

*Secretaría de Finanzas*
Centro Administrativo del Poder Ejecutivo y Judicial  
General Porfirio Díaz “Soldado de la Patria”, Edificio D. Saúl Martínez  
Av. Gerardo Pandalf No. 1  
Reyes Mantecón, San Bartolo Coyotepec  
Oaxaca, México

*Coordinación General del Comité Estatal de Planeación para el Desarrollo de Oaxaca*
Centro Administrativo del Poder Ejecutivo y Judicial  
General Porfirio Díaz “Soldado de la Patria”, Edificio María Sabina, Nivel 2  
Av. Gerardo Pandalf No. 1  
Reyes Mantecón, San Bartolo Coyotepec  
Oaxaca, México

6.03. **World Bank’s Address.** 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: 248423 (MCI) or 64145 (MCI)  
Facsimile: 1-202-477-6391