Global Environment Facility
Trust Fund Grant Agreement

(Environmental Services Project)

between

UNITED MEXICAN STATES

and

NACIONAL FINANCIERA, S.N.C.

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as an Implementing Agency of the Global Environment Facility

Dated May 11, 2006
GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated May 11, 2006, between UNITED MEXICAN STATES (the Recipient) acting through its signatory on page 10 of this Agreement, NACIONAL FINANCIERA, S.N.C. and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, inter alia, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution 94-2);

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2; and

(D) 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 of forty five million Dollars ($45,000,000) (the Loan); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the GEF Trust Fund Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:
ARTICLE I

General Conditions; Definitions

Section 1.01 (a) The following provisions of the “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

(i) Article I;
(ii) Sections 2.01 (2), (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;
(iii) Section 3.01;
(iv) Sections 4.01 and 4.06;
(v) Article V;
(vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i), (l), (m), (n), (o) and (p), 6.03, 6.04 and 6.06;
(vii) Section 8.01 (b);
(viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
(ix) Sections 10.01, 10.03 and 10.04;
(x) Article XI; and
(xi) Sections 12.01 (c), 12.03 and 12.04.

(b) The General Conditions shall be modified as follows:

(i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (6), 6.02 (f) and 5.01 (a) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;

(ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;

(iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;

(v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;

(vi) a new subparagraph is added after subparagraph (o) in Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”;

(vii) the words “corrupt or fraudulent” in paragraph (c) of Section 6.03 are replaced with the words “corrupt, fraudulent, collusive or coercive”; and

(viii) Section 5.08 shall be modified to read as follows: “Treatment of Taxes: Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions, in the Recitals to this Agreement and in the Loan Agreement have the respective meanings therein set forth.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to CONAFOR.
ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount equal to fifteen million Dollars ($15,000,000).

Section 2.02. The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the items listed in the table in Part A.1 of Schedule 1 to this Agreement and to be financed out of the proceeds of the GEF Trust Fund Grant.

Section 2.03. The Closing Date shall be June 30, 2011 or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objective of the Project, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause CONAFOR to perform in accordance with the provisions of the Project Agreement all the obligations of CONAFOR therein set forth, shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable CONAFOR to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) NAFIN shall, in the name and on behalf of the Recipient, enter into a contract (the GEF Subsidiary Contract) with CONAFOR, satisfactory to the Bank, whereby:

(i) NAFIN, acting as financial agent of the Recipient with regard to the GEF Trust Fund Grant, agrees to, inter alia: (A) represent the Recipient vis-à-vis the Bank for purposes of submitting GEF Trust Fund Grant withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Recipient of GEF Trust Fund Grant proceeds; and (B) cooperate fully with CONAFOR to ensure that CONAFOR is able to comply with all of CONAFOR’s obligations referred to in the Project Agreement, and
(ii) CONAFOR agrees to carry out the Project.

(c) NAFIN shall, in the name and on behalf of the Recipient, exercise its rights and carry out its obligations under the GEF Subsidiary Contract in such a manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the GEF Trust Fund Grant. Except as the Bank may otherwise agree, NAFIN shall not amend or fail to enforce any provision of the GEF Subsidiary Contract. In case of any conflict between the terms of: (i) the GEF Subsidiary Contract; and (ii) those of this Agreement, the terms of this Agreement shall prevail.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of the Schedule to the Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall cause CONAFOR to: (i) update the Procurement Plan in accordance with guidelines acceptable to the Bank; and (ii) furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank’s approval.

Section 3.03. The Bank and the Recipient hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by CONAFOR pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Recipient shall participate and cause NAFIN to participate in the reviews referred to in Section 2.06 (c) of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall cause NAFIN: (i) to maintain a financial management system, including records and accounts; and (ii) to prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations, resources and expenditures related to the Project.

(b) The Recipient shall cause NAFIN:

(i) to have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the
Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

(ii) to furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

(iii) to furnish to the Bank such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of Report-based Disbursement or statements of expenditure, the Recipient shall cause NAFIN to:

(i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made;

(ii) enable the Bank’s representatives to examine such records; and

(iii) ensure that such statements of expenditure are included in any audit that the Bank may have requested pursuant to paragraph (b) of this Section.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) CONAFOR shall have failed to perform any of its obligations under the Project Agreement or the GEF Subsidiary Contract or NAFIN shall have failed to perform any of its obligations under the GEF Subsidiary Contract.
(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that CONAFOR will be able to perform any of its obligations under the Project Agreement.

(c) (i) Subject to subparagraph (ii) of this paragraph: (A) the right of the Recipient to withdraw the proceeds of the Loan for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or (B) the Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the GEF Grant Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the GEF Subsidiary Contract has been executed on behalf of NAFIN and CONAFOR; and

(b) 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 thereunder, except only the effectiveness of this Agreement, have been fulfilled.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, by counsel to each of the parties to the respective agreements:

(a) that the Project Agreement has been duly authorized or ratified by CONAFOR, and is legally binding upon CONAFOR in accordance with its terms; and
(b) that the GEF Subsidiary Contract has been duly authorized or ratified by NAFIN and CONAFOR and is legally binding upon NAFIN and CONAFOR in accordance with its terms.

Section 6.03. Without prejudice to the provisions of the General Conditions, the date specified for the purposes of Section 12.04 of the General Conditions 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 GEF Trust Fund Grant which expires on September 29, 2007.

Section 6.04. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Titular de la Unidad de Crédito Público of SHCP is designated as representative of the Recipient, and the Director International of NAFIN is designated as representative of NAFIN for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretaría de Hacienda y Crédito Público
Unidad de Crédito Público
Palacio Nacional
Patio Central
3er piso, oficina 3010
Colonia Centro
06000 México, D.F.

Facsimile: 011-52-559158-1156
For Nacional Financiera, S.N.C.

Nacional Financiera, S.N.C.  
Dirección Internacional  
Torre IV, piso 11  
Plaza Inn, Insurgentes Sur 1971  
01020 México, D. F.  

Facsimile: 011-52 55325-6528

For the Bank:

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

Cable address: Telex: Facsimile:

INTBAFRAD 248423 (MCI) (202) 477-6391  
Washington, D.C. 64145 (MCI)
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Mexico City, Mexico, as of the day and year first above written.

UNITED MEXICAN STATES

By /s/ Gerardo Rodríguez Regordosa
Authorized Representative

NACIONAL FINANCIERA, S.N.C.

By /s/ Timoteo Harris Howard
Authorized Representative

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

By /s/ Isabel Guerrero
Authorized Representative
### SCHEDULE 1

**Withdrawal of the Proceeds of the GEF Trust Fund Grant**

#### A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan and the GEF Trust Fund Grant, the allocation of the amounts of the Loan and the GEF Trust Fund Grant to each Category and the percentage of expenditures for items so to be financed by the Loan or the GEF Trust Fund Grant in each Category (with the proviso that no item can receive more than 100% total financing):

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in US Dollars)</th>
<th>Amount of the GEF Trust Fund Grant Allocated (Expressed in US Dollars)</th>
<th>% of Expenditures to be Financed by the Loan</th>
<th>% of Expenditures to be Financed by the GEF Trust Fund Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Training, Operating Costs, Consultants’ Services for all Parts of the Project, Technical Strengthening Activities and Stipends</td>
<td>10,674,000</td>
<td>8,450,000</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Endowment Fund contribution</td>
<td>0</td>
<td>5,000,000</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>(3) (a) PES Contract Payments</td>
<td>25,938,500</td>
<td>750,000</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>(b) Local Financing Grants</td>
<td>8,275,000</td>
<td>800,000</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Front-end fee</td>
<td>112,500</td>
<td>0</td>
<td>Amount due under Section 2.04 of the Loan Agreement</td>
<td>0</td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Loan Allocated (Expressed in US Dollars)</td>
<td>Amount of the GEF Trust Fund Grant Allocated (Expressed in US Dollars)</td>
<td>% of Expenditures to be Financed by the Loan</td>
<td>% of Expenditures to be Financed by the GEF Trust Fund Grant</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>------------------------------------------------------</td>
<td>-----------------------------------------------------------------------</td>
<td>---------------------------------------------</td>
<td>-------------------------------------------------</td>
</tr>
<tr>
<td>(5) Premia for Interest Rate Caps and Interest Rate Collars</td>
<td>0</td>
<td>0</td>
<td>Amount due under Section 2.09 (c) of the Loan Agreement</td>
<td>0</td>
</tr>
</tbody>
</table>

**TOTAL** 45,000,000 15,000,000

2. For the purposes of this Schedule:

   (a) the term “Training” means expenditures incurred in connection with the provision of training and in connection with meetings of the Advisory Committee (including trainers’ fees, logistics, materials, and the reasonable recurrent travel costs and per diem of participants);

   (b) “Operating Costs” means reasonable recurrent expenditures to carry out the Project such as travel and per diem cost for supervision activities, preparation of promotion materials, communications services, rental of facilities, maintenance of Project facilities, equipment, vehicles, fuel, utilities, and consumable material and supplies; and

   (c) “Stipends” means payments to the community technicians referred to in Part C.2 of the Project for operating expenses associated with carrying out their activities under the Project, all in the amounts eligible for financing in accordance with the Operational Manual.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

   (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding $1,500,000 may be made on account of payments made for expenditures incurred within twelve months before that date, but in no case incurred before December 16, 2005;

   (b) payments covered by Category (3) (b) above for a Local Financing Grant, unless: (i) the Operational Rules have been revised to the satisfaction of the Bank to incorporate the procedures and eligibility for financing of Local Financing Grants; and
(ii) for those requiring an IAP as per the terms of the IPDP, the respective IAP has been approved by the Bank; and

(c) payments under Category (2) unless:

(i) the Endowment Fund has been established in form and substance satisfactory to the Bank;

(ii) the Endowment Fund Directives have been approved by the Bank; and the Asset Management Agency has been appointed under the terms of an Asset Management Contract satisfactory to the Bank; and

(iii) an amount at least equivalent to the amount to be disbursed from the GEF Trust Fund Grant Account has been deposited in the Endowment Fund by other donors.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods estimated to cost less than the equivalent of $300,000 per contract; (b) consulting firms estimated to cost less than the equivalent of $200,000 per contract; (c) individual consultants estimated to cost less than the equivalent of $50,000 per contract; and (d) Operating Costs, Stipends, PES Contract Payments, Local Financing Grants and Technical Assistance Activities, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

5. The Recipient, through NAFIN as financial agent, may request withdrawals from the GEF Trust Fund Grant Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the GEF Trust Fund Grant Account, the Recipient shall cause NAFIN to submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. GEF Special Account

1. The Recipient may, for the purposes of the Project, cause NAFIN to open and maintain in Dollars a special deposit account on the Recipient’s behalf in NAFIN on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.
2. After the Bank has received evidence satisfactory to it that the GEF Special Account has been opened, withdrawals from the GEF Trust Fund Grant Account of amounts to be deposited into the GEF Special Account shall be made as follows:

   (a) if the Recipient, through NAFIN, is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Recipient, through NAFIN, is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the GEF Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient, through NAFIN out of the GEF Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the GEF Special Account:

   (a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

   (b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the GEF Trust Fund Grant Account; or

   (c) if the Recipient, through NAFIN, shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the GEF Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the GEF Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the GEF Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.
6. (a) If the Bank determines at any time that any payment out of the GEF Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the GEF Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the GEF Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the GEF Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Recipient may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the GEF Special Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the GEF Grant Agreement.
Annex A

to

SCHEDULE 1

Operation of GEF Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of $1,500,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the GEF Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the GEF Special Account shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the GEF Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the GEF Special Account such amount as the Recipient shall have requested.

   (b) For replenishment of the GEF Special Account, the Recipient shall furnish to the Bank requests for deposit into the GEF Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the GEF Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the GEF Special Account for Eligible Expenditures. Each such deposit into the GEF Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the GEF Special Account, once the total unwithdrawn amount of the GEF Trust Fund Grant minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been
satisfied that all such amounts remaining on deposit in the GEF Special Account as of the
date of such notice will be utilized in making payments for Eligible Expenditures.
Annex B

to

SCHEDULE 1

Operation of GEF Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the GEF Trust Fund Grant Account shall be deposited by the Bank into the GEF Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the GEF Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the GEF Trust Fund Grant, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the GEF Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
SCHEDULE 2

Description of the Project

The objective of the Project is to enhance the provision in the Borrower’s territory of Environmental Services of national and global significance and secure their long term sustainability.

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

Part A: Development of Sustainable PES Financing Mechanisms

Development of new financing mechanisms for PES in the Eligible Pilot Areas, and replication strategies for such mechanisms to expand their use to other areas, all with respect to environmental services which would be derived from:

1. water users;

2. biodiversity users, in which case the mechanisms would include: (a) development of local programs; and (b) (i) development; (ii) establishment; and (iii) capitalization of the Endowment Fund; and

3. carbon users.

The development of all such mechanisms will include diagnosis of land uses, relevant technical studies, promotional efforts, and capacity building of the agencies concerned and could be channeled either through existing environmental services programs or through new, stand-alone local mechanisms.

Part B: Development and Strengthening of PES Delivery Mechanisms

Strengthening and improvement of the efficiency in the delivery of existing PES through:

1. strengthening of existing delivery mechanisms including: (a) capacity building of institutions relevant to the implementation of the Project; (b) development of improved Operational Rules; and (c) improvement of enforcement and impact monitoring; and

2. development of local delivery mechanisms in the Eligible Pilot Areas.
Part C: Supporting Environmental Services Providers

1. Carrying out of diagnostics of the organizational structure and capacity of the Communities and Ejidos.

2. Provision of community technicians to work with Communities and Ejidos in developing customized capacity building strategies, and act as liaisons among Communities, Ejidos and/or CONAFOR as required for the Project.

3. Strengthening of the organizational capacity of Communities and Ejidos.

4. (a) Provision of technical assistance to improve the capacity of Communities and Ejidos to deliver Environmental Services; and/or

(b) carrying out of Technical Strengthening Activities.

Part D: Financing of Environmental Services

Financing of:

1. Water Environmental Services.

2. Biodiversity Environmental Services.


4. Local Financing Grants in the Eligible Pilot Areas.

Part E: Project Management

Establishment and operation of the Project Team, and provision of the technical assistance, equipment and training required therefore.

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The Project is expected to be completed by December 31, 2010.