Global Environment Facility
Grant Agreement

(Integrated Energy Services Project)

Among

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 December 5, 2008
GLOBAL ENVIRONMENT FACILITY
GRANT AGREEMENT

AGREEMENT dated December 5, 2008, entered into among:

UNITED MEXICAN STATES (“Recipient”) represented by its signatories on page 5 of this Agreement (including SECRETARIA DE ENERGIA (SENER) acting as the Recipient’s executing agency for purposes of the GEF Trust Fund Grant); NACIONAL FINANCIERA S.N.C. (NAFIN) acting as the Recipient’s financial administrator and financial agent for purposes of the GEF Trust Fund Grant; and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“World 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 Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to fifteen million Dollars ($15,000,000) (“Loan”).

The Recipient and the World Bank hereby agree as follows:

Article I
Standard Conditions; Definitions


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, through SENER, shall carry out the Project, with the assistance of NAFIN as financial administrator and financial agent (pursuant to the Convenio de Colaboración), 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
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 fifteen million United States Dollars ($15,000,000) ("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 consists of the following, namely, that NAFIN shall have failed to perform any of its obligations under the Convenio de Colaboración.

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 Convenio de Colaboración has been entered into by the parties thereto and is in effect.

(c) SENER (in its legal opinion satisfactory to the Bank, issued by counsel acceptable to the Bank) and NAFIN (in its legal opinion satisfactory to the Bank, issued by counsel acceptable to the Bank), indicate that the Convenio de Colaboración has been duly authorized or ratified by, and executed and delivered on behalf of, SENER and NAFIN, and is legally binding upon SENER and NAFIN in accordance with the Convenio de Colaboración.

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 July 17, 2009.
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 Crédito Público of SHCP, and the Director International of NAFIN is designated as representative of NAFIN for the purposes of Section 10.02 of the General Conditions.

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 Crédito Público
Palacio Nacional
Patio Central
3er piso, oficina 3010
Colonia Centro
06000 México, D.F.

Facsímile: 011-52-55-3688-1156

NAFIN’s Address:

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

Facsímile: 011-52 55325-6929

SENER’s Address:

Secretaría de Energía
Insurgentes Sur 890,
Col. Del Valle, Del. Benito Juárez
03100 México, D.F.

Facsimile: 011-52 555000-6184/6223
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: 64145 (MCI)
AGreed at Mexico City, Mexico, as of the day and year first above written.

UNITED MEXICAN STATES

By /s/ Ricardo Ochoa Rodríguez
  Authorized Representative

By /s/ Verónica Irastorza
  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 Ituarte
  Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to increase access to efficient and sustainable energy services in the Recipient’s rural areas in Selected States.

The Project consists of the following parts:

**Part 1. Policy, Regulation and Strategy**

(a) Strengthening of the Recipient’s policy, legal and regulatory framework for the energy sector, including: (i) the definition of the tariff and subsidy mechanisms for projects not connected to the national interconnection system; and (ii) the definition of ownership for projects co-financed with public resources at the national and sub-national level or with a combination of public and private resources.

(b) Development of financial, policy and regulatory incentives to foster the development of RET-based off-grid electricity services.

(c) Development of regulatory measures, standards and manuals to ensure minimum quality levels in technical installations and service delivery practices.

(d) Development of methodological guidelines and tools for public consultation activities and for environmental protection.

(e) Design of a conflict resolution mechanism to ensure transparency and reduce risks.

**Part 2. Rural Energy Sub-Projects**

Carrying out of Energy Sub-projects in the Recipient’s rural communities.

**Part 3. Technical Assistance for Rural Energy**

Provision of technical assistance and capacity building activities to: (a) selected rural communities, to ensure the successful implementation of Energy Sub-projects; (b) promote RET-based off-grid electrification projects; and (c) promote private sector participation.
Part 4. Promotion and Technical Assistance to Increase Productive Uses of Electricity

Provision of technical assistance to selected entrepreneurs, associations or communities (on a competitive basis when applicable), in the Recipient’s rural areas, to expand their business activities through the use of energy services, including, *inter alia*:

(a) the development of social or community projects through the provision of rural energy services including energy for community centers or local government offices; (b) the development of productive and economic activities through the provision of energy services; (c) better access to micro-financing and better management of remittances; (d) better understanding of financial schemes and preparation of business plans; (e) the development of socially productive activities; and (f) promoting of economic and productive activities including profitable energy-intensive productive activities and micro-business or entrepreneurial activities.

Part 5. Project Management

Provision of technical assistance to the FIT and the SITs to carry out the implementation of the Project.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional Arrangements; Operational Manual

1. (a) The Recipient, through SENER, shall enter into a contract (Convenio de Colaboración) with NAFIN, satisfactory to the Bank, whereby NAFIN agrees to act as financial administrator 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 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 a designated account in compliance with the terms of the instructions deferred to in Section IV. A.1 of this Schedule.

(b) The Recipient through SENER, shall exercise its rights and carry out its obligations under the Convenio de Colaboración in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Grant, all with the appropriate due diligence and efficiency for the benefit of the Project. Except as the Bank may otherwise agree, the Recipient shall not amend or fail to enforce any provision of the Convenio de Colaboración. In case of any conflict between the terms of the Convenio de Colaboración and those of this Agreement, the terms of this Agreement shall prevail.

2. The Recipient, through SENER, shall establish and maintain throughout the implementation of the Project a Federal Implementation Team (FIT), to carry out the implementation of the Recipient’s rural electrification program. The FIT shall be comprised of a project manager, a technical unit and an administrative unit, all with staffing, functions and qualifications acceptable to the Bank.

3. The Recipient, through SENER, shall establish and maintain throughout the implementation of the Project a Project Advisory and Monitoring Committee (PAMC) comprised of relevant Project related representatives as deemed necessary by SENER.

4. The Recipient, through SENER, shall cause the Selected States to establish and maintain throughout the implementation of the Project the State Implementation Teams (SITs) to assist SENER in the implementation of the Project at the state level.
B. **Manuals**

1. The Recipient, through SENER, shall carry out the Project in accordance with the terms of a manual satisfactory to the Bank (the Operational Manual). Except as the Bank shall otherwise agree, the Recipient shall not amend, waive or fail to enforce the Operational Manual or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.

2. The Operational Manual shall include provisions detailing procedures and guidelines for the carrying out of the Project, including, *inter alia*:

   (a) procedures for the preparation, review and approval of reports pursuant to the Project’s financial management arrangements;

   (b) procurement and contracting procedures consistent with Schedule 2 to this Agreement, to be applicable to the contracts for the works, goods and services required for the Project and to be financed out of the proceeds of the Grant;

   (c) Project performance indicators and the procedures for the monitoring and evaluation of the Project;

   (d) procedures for the preparation, review and approval of withdrawal applications in conformity with the instructions that the Bank may give to the Recipient and NAFIN in this respect;

   (e) eligibility criteria for the identification, prioritization and selection of the Energy Sub-Projects;

   (f) clear and well defined roles and responsibilities of *inter alia*: (i) FIT; (ii) PAMC; (iii) CDI; (iv) NAFIN; (v) SITs; (vi) the Selected States; and (vii) the Selected Municipalities, in the carrying out of the Project;

   (g) the Environmental Management Framework;

   (h) a framework for public consultations with Project stakeholders and an action plan to protect indigenous peoples’ rights; and

   (i) requirements for the Service Management Contract.
Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. The Recipient, through SENER, shall 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, through SENER 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 six months after the Closing Date.

B. Financial Management; Financial Reports; Audits

1. The Recipient, through SENER shall, 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, through SENER, shall 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, through SENER, shall 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. Procurement and Consultant Guidelines. All goods, works and 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:

(a) Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 (“Procurement Guidelines”) in the case of goods and works, and Sections I and IV of the
“Guidelines: Selection and Employment of Consultants by World Bank Recipients” published by the World Bank in May 2004 (“Consultant Guidelines”) in the case of consultants’ services; and

(b) the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

2. Definitions. The capitalized terms used below in 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 the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

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. The following methods, other than International Competitive Bidding, may be used for procurement of goods and works for those contracts specified in the Procurement Plan: (a) National Competitive Bidding; and (b) Shopping.

C. Particular Methods of Procurement of Consultants’ Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Least Cost Selection; (c) Selection based on Consultants’ Qualifications; (d) Fixed Budget; and (e) Selection of Individual Consultants.

D. Review by the World Bank of Procurement Decisions

1. 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.
Section IV. Withdrawal of Grant Proceeds

A. General

1. NAFIN 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 table in paragraph 2 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) Consultant services and Training, other than those financed by the Loan</td>
<td>7,074,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Expenditures under Service Management Contracts other than those financed by the Loan</td>
<td>5,076,000</td>
<td>100% of OBA payments for Electrification Sub-projects</td>
</tr>
<tr>
<td>(3) Operating Costs, other than those financed by the Loan</td>
<td>1,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Unallocated</td>
<td>1,350,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>15,000,000</td>
<td></td>
</tr>
</tbody>
</table>
For purposes of this paragraph the terms:

(a) “Training” means the reasonable non-consultant expenditures incurred by the Recipient in connection with the carrying out of training activities (including workshops, conferences and seminars) under the Project, including travel costs, per diem of trainers, trainees, facilitators and stakeholders, and training materials;

(b) “Operating Costs” means: (i) the reasonable costs of communications, office supply and utilities, travel and per diem directly related to the performance of the Project activities; and (ii) NAFIN’s Project administration fees, which in no case shall exceed the amount of $450,000, all which would not have been incurred absent the Project; and

(c) “OBA payments for Energy Sub-projects” means an amount or amounts paid ex-post by the Selected States to service providers under Part 2 of the Project, which amount cannot exceed the agreed price set forth in the relevant Service Management Contract.

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 $3,000,000 equivalent may be made for payments made within twelve (12) months of this Agreement, but in no case prior to May 15, 2007, for Eligible Expenditures; and from the Loan Account until the Bank has received payment in full of the Front-End Fee referred to in Section 2.03 of the Loan Agreement.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2013.
APPENDIX

Section I. Definitions

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

2. “CDI” means Comisión Nacional para el Desarrollo de los Pueblos Indígenas, the Recipient’s Indigenous People Development Commission.


4. “Convenio de Colaboración” means the contract referred to in Section I.A.1(a) of Schedule 2 to this Agreement.

5. “Energy Sub-projects” means activities, including the provision of goods and services to provide integrated energy services (including off-grid electrification) and promote the development of social, economic and productive activities, in the Selected States and Selected Municipalities, including investments in RET (defined below), hybrid systems (diesel-RETs) and limited fossil-fuel based Sub-projects.

6. “Environmental Management Framework” means the framework for the Project dated July 11, 2007, that governs mandatory safeguards and mitigation actions for the Project which could possibly have a negative environmental impact such as, in particular, through use of any pesticides, increase in deforestation, pollution of groundwater, negative impacts on endangered species, increased pesticide level in food, increased soil erosion, impacts on national parks and protected areas, and encroachment on natural habitats as specified in the Operational Manual.

7. “FIT” means the Federal Implementation Team referred to in Section I.A.2 of Schedule 2 to this Agreement.

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

9. “Operational Manual” means the manual referred to in Section I.B of Schedule 2 to this Agreement.

10. “PAMC” means the Project Advisory and Monitoring Committee referred to in Section I.A.3 of Schedule 2 to this Agreement.

12. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated September 11, 2007 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.


14. “Selected Municipalities” means the Recipient’s municipalities where the Energy Sub-Projects will be carried out.

15. “Selected States” means the Recipient’s states of Oaxaca, Guerrero and Veracruz and any other state which may be agreed between the Recipient and the Bank, from time to time, which meets the criteria set forth in the Operational Manual.

16. “SENER” means Secretaría de Energía, the Recipient’s executing agency for the Project.

17. “Service Management Contracts” means any or all the agreements executed between the Selected States and private and public sector service providers under Part 2 of the Project, consistent with the model contained in the Operational Manual and referred to in Section I.B.2(i) of Schedule 2 to this Agreement.


19. “SITs” means the Recipient’s State Implementation Teams referred to in Section I.A4 of this Agreement.