CONFORMED COPY

December 14, 2010

Re: Mexico: IDF Grant for Strengthening and Consolidation of the Internal Control Framework of the Federal Government Project
IDF Grant No. TF097295

Dear Sirs/Madam,

In response to the request for financial assistance made on behalf of the United Mexican States (“Recipient”), represented by its Secretaría de Hacienda y Crédito Público (“SHCP”) as defined in the Annex to this Agreement, 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 three hundred and six thousand Dollars ($306,000) (“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”).

Without limitation to the provisions set forth in the Annex to this Agreement, the Grant shall be implemented by the Recipient’s Secretaría de la Función Pública (“SFP”) as defined in the Annex to this Agreement. The Recipient shall be assisted by Nacional Financiera S.N.C. (“NAFIN”) as defined in the Annex to this Agreement, a Mexican development bank who will act as financial agent for the purpose of the Project.
The Recipient and NAFIN represent, by confirming their agreement below, that they are authorized to enter into this Agreement, and in the case of SFP to carry out the activities under the Project, in accordance with the terms and conditions set forth or referred to in this Agreement.

NAFIN’s representative, Ms. Danielle Pellat Thomé, hereby represents and warrants to the World Bank that her power and authority to sign and deliver this Agreement on behalf of NAFIN: (a) was granted by Public Deed Number 49,076 (forty nine thousand seventy six) dated March 25, 2010, before the Public Notary Number 156 of the Federal District of the United Mexican States, Mr. Rogelio Magana Luna; being said Public Deed registered in the Public Registry of Commerce under the entry number 1,275 (one thousand two hundred seventy five) of April, 20, 2010; and (b) remain in full force and effect as of the date of NAFIN’s countersigning of this Agreement.

Please confirm the Recipient’s and NAFIN’s agreement to the foregoing by having an authorized official of the Recipient and NAFIN sign and date the enclosed copy of this Agreement, and returning it to the World Bank.

This Agreement shall become effective upon receipt by the World Bank of: (i) a copy of this Agreement countersigned by all parties and (ii) an executed copy of the Contrato de Apoyo Financiero No Reembolsable referred to in Section 2.02 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 ninety (90) 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 /s/ Gloria M. Grandolini
Director
Country Management Unit
Colombia and México

AGREED:

UNITED MEXICAN STATES
SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO
(As the legal representative of the Recipient)

By: /s/ Ricardo Ochoa
(Authorized Representative)
Title:  *Titular de la Unidad de Asuntos Internacionales de Hacienda* of SHCP (as legal representative of the Recipient)

Date:  December 21, 2010

**NACIONAL FINANCIERA S.N.C. (NAFIN)**

By:  /s/ Danielle Pellat Thomé  
     (Authorized Representative)

Title:  Directora de Organismos Financieros Internacionales

Date:  December 17, 2010

**UNITED MEXICAN STATES**  
**SECRETARÍA DE LA FUNCIÓN PÚBLICA**

(As the implementing agency of the Recipient)

By:  /s/ Salvador Vega Casillas  
     (Authorized Representative)

Title:  *Secretario de la Función Pública* (as Implementing Agency of the Recipient)

Date:  December 20, 2010

Enclosures:


Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated July 31, 2010 ("Standard Conditions") constitute an integral part of this Agreement.

**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; in addition, the following terms should have the following meaning:

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

(b) “New Internal Control Model” means the regulations, policies, strategies, actions or criteria included in the Agreement enacted by the SPF (Acuerdo por el que se emiten las Disposiciones en Materia de Control Interno y se expide el Manual Administrativo de Aplicación General en Materia de Control Interno) dated July 7, 2010 and published in the Recipient’s Official Gazette (Diario Official) on July 12, 2010, aimed to reduce and simplify administrative regulations in terms of internal control mechanisms to harness and efficiently utilize the existing resources and technical procedures of the Public Sector Entities.

(c) “Public Sector Entities” means the Member Country’s national entities (including, *inter alia*, the entities of the federal public central administration, the entities of the federal public parastatal administration as well as the Attorney General's Office).

(d) “SHCP” means Secretaría de Hacienda y Crédito Público, the Recipient’s Ministry of Finance and Public Credit.

(e) “SEPA” means the World Bank’s publicly accessible Procurement Plans Execution System.

(f) “SFP” means Secretaría de la Función Pública, the Recipient’s Ministry of Public Service.

Article II
Project Execution

2.01. **Project Objectives and Description.** The objectives of the Project are: (a) to strengthen the institutional capacity of the SFP to implement the New Internal Control Model to address the increasingly complex and challenging operating environment faced by the Public Sector Entities; (b) strengthen SFP existent risk management model to promote a preventive, proactive and self
identification approach to internal control matters; and (c) to promote development of appropriate institutional skills in Public Sector Entity’s staff for the implementation of the New Internal Control Model. The Project consists of the following parts:

Part 1: Implementation and Strengthening of the New Internal Control Model

(a) Implementation and strengthening of the New Internal Control Model, including, *inter alia*:

(i) the development of a work plan for the implementation of the New Internal Control Model within selected Public Sector Entities.

(ii) the compilation of best internal control practices to develop a comprehensive database, said database will be available to Public Sector Entities on the SPF’s web site; and

(iii) the design of methodologies, policies and procedures for: (A) the strengthening of existing mechanisms that enable Public Sector Entities to assume responsibility of the risk management process and its implementation, and the internal control units of each entity to perform oversight functions of such process and (B) the creation of an internal risk management committee (“Internal Risk Management Committee”) within selected Public Sector Entities.

(b) Carry out of pilot tests in at least two selected Public Sector Entities and within SFP to validate, obtain feedback and provide recommendations on the implementation of the New Internal Control Model.

(c) Establishment of a mechanism, to measure the results derived from the implementation of the New Internal Control Model in the selected Public Sector Entities and in relation to their objectives and institutional goals.

Part 2: Training and Dissemination of Knowledge

(a) Certification of at least ten (10) Public Sector Entities employees as trainers through a program to be administered by a prestigious academic institution, acceptable to the World Bank.

(b) Public Sector Entities certified employees under Part 2(a) of the Project, with support from specialized consultants, will prepare and provide training to at least one hundred (100) Public Sector Entities’ staff with relevant functions in terms of internal control

(c) Development of training materials for training activities described under Part 2 (b) of the Project.

(d) Development of a self-learning online training course directed to Public Sector Entities’ staff on the implementation of the New Internal Control Model, said training will be available on the SPF’s web site.
2.02. **Project Execution Generally.** (a) The Recipient and NAFIN declare their commitment to the objectives of the Project. To this end, the Recipient, through SFP and/or SHCP, and NAFIN, shall carry out the Project in accordance with the provisions of: (i) Article II of the Standard Conditions; (ii) this Article II; (iii) the *Contrato de Apoyo Financiero No Reembolsable* referred under Section 2.02 (b) below; and (iv) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”), with the modifications set forth in the Appendix to this Agreement.

(b) Without limitation to the provisions of Section 2.02 of this Article, the Recipient, through SFP, shall enter into a cooperation agreement with NAFIN ("*Contrato de Apoyo Financiero No Reembolsable*"), satisfactory to the World Bank, whereby, *inter alia*:

(i) NAFIN agrees to act as financial agent of the Recipient for the purposes of the Project meaning that, *inter alia*, NAFIN agrees to represent the Recipient vis-à-vis the World Bank for purposes of submitting withdrawal applications to the World Bank in form and substance sufficient to justify disbursement by the World Bank to the Recipient of Grant proceeds and agrees to maintain and operate an account in compliance with the terms of this Agreement;

(ii) The Recipient, through SFP, and NAFIN shall agree to abide by the Anti-Corruption Guidelines and the Recipient, through SFP, shall have the right to, in case of fraud or corruption (as defined in the Anti-Corruption Guidelines) provide for the early termination of the *Contrato de Apoyo Financiero No Reembolsable*, or temporarily suspend its effects and/or require the restitution of funds transferred to NAFIN in relation to the Project.

(iii) The Recipient, through SFP and NAFIN, shall exercise its rights and carry out its obligations under the *Contrato de Apoyo Financiero No Reembolsable* in such manner as to protect the interests of the Recipient and the World Bank, and to accomplish the purpose of this Grant.

(iv) The Recipient, through SFP, shall cooperate fully with NAFIN to ensure that NAFIN is able to comply with all of its obligations under the *Contrato de Apoyo Financiero No Reembolsable*.

(v) Except as the World Bank shall otherwise agree, neither the Recipient, through SFP, nor NAFIN shall assign, amend, abrogate, waive, terminate or fail to enforce the *Contrato de Apoyo Financiero No Reembolsable* or any portion thereof. In case of conflict between the terms of the *Contrato de Apoyo Financiero No Reembolsable* and those of this Agreement, the terms of this Agreement shall prevail.

2.03. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient, through SFP, 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 the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of eighteen (18) months, and shall be furnished to the World Bank not later than five months after the date of such request.

(b) The performance indicators referred to above in paragraph (a) consist of the following:
(i) the New Internal Control Model referred to under Part 1 (a) has been periodically updated and published in SFP’s web site as a result of the activities carried out under Part 1 of this Agreement.

(ii) the Internal Risk Management Committee referred to under Part 1 (a)(iii)(B) of Section 2.01 of this Agreement has been created, and is holding sessions according to the guidelines established in the New Internal Control Model, in at least two (2) selected Public Sector Entities.

(iii) the mechanism developed under Part 1 (c) of Section 2.01 of this Agreement is working and has been applied by at least two (2) selected Public Sector Entities.

(c) The Recipient, through SFP shall, upon the World Bank’s request, 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 months after the Closing Date.

2.04. **Financial Management.** (a) The Recipient, through SFP, shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient, through SFP, shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each 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.

(c) Without limitation on the provisions of article 2.03, The Recipient, through SFP shall prepare and furnish to the World Bank not later than forty five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the World Bank.

2.05. **Procurement**

(a) General. All goods 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:

(i) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods; 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 Recipient through SFP for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 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 the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) Special Provisions. The Recipient, through SFP, shall: (a) supply the SEPA with the information contained in the initial Procurement Plan within 30 days after this Agreement has been entered into, and (b) updated the Procurement Plan at least once a year, or as required by the the World 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

(d) Particular Methods of Procurement of Goods. Goods shall be procured under contracts awarded on the basis of Shopping.

(e) 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 the World Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Selection under a Fixed Budget; (B) Least Cost Selection; (C) Selection based on Consultants’ Qualifications; (D) Single-source Selection; (E) Selection of Individual Consultants; and (F) Sole Source Procedures for the Selection of Individual Consultants.

(f) Review by the World Bank of Procurement Decisions. Except as the World Bank shall otherwise determine by notice to the Recipient, the first contract to be awarded in accordance with each procurement method and each contract for consultants’ services provided by a firm estimated to cost the equivalent of $200,000 or more. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. (a) The Recipient, through SFP may, or may cause NAFIN to withdraw the proceeds of the Grant in accordance with the provisions of: (i) Article III of the Standard Conditions, (ii) this Section, and (iii) 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>(1) Goods</td>
<td>6,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ Services</td>
<td>250,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Training</td>
<td>50,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>306,000</td>
<td></td>
</tr>
</tbody>
</table>

(b) For the purposes of this Section, the term “Training” means reasonable non-consultant expenditures incurred in connection with the provision of training conducted in the territory of the Recipient, including purchase and publication of materials, rental of facilities and course fees.

(c) The Recipient’s representative for purposes of taking any action required or permitted to be taken pursuant to this Section 3.01 is the Director de Organismos Financieros Internacionales of NAFIN or any person or persons whom he or she shall designate in writing.

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments incurred prior to the date of countersignature of this Agreement by the Recipient and NAFIN.

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

**Article IV**

Termination

4.01. Termination for Lack of Implementation or Disbursement. This Agreement and all obligations of the parties under it shall terminate if the Grant has not been implemented or has not disbursed any funds by January 31, 2010, 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
Recipient's Representative; Addresses

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

5.02. **Recipient's Address.** 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.

Telephone: (52-55) 3688-1153
Facsimile: (52-55) 36 88-1156

5.03. **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
APPENDIX

Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

   “(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

   “… (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”
“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”