August 27, 2010

CONFORMED COPY FOR PUBLIC DISCLOSURE

Ricardo Ochoa Rodríguez  
*Titular de la Unidad de Asuntos Internacionales de Hacienda*  
Secretaría de Hacienda y Crédito Público  
Palacio Nacional, Patio Central  
Edificio 12, Segundo Piso  
Colonia Centro  
06000 México, D.F.

Danielle Pellat Thomé  
*Directora de Organismos Financieros Internacionales*  
Nacional Financiera, S.N.C.  
Insurgentes Sur 1971  
Edificio Anexo, piso financiero01020 México, D.F.

Irene Espinosa Cantellano  
*Tesorera de la Federación*  
Secretaría de Hacienda y Crédito Público  
Av. Constituyentes No. 1001,  
Edificio A, Piso 4,  
Colonia Belén de las Flores  
01110, México, D.F.

Re: MEXICO: IDF Grant for Strengthening Cash Management and Control Systems Project  
IDF Grant No. TF097593

Dear Sir/Madams:

In response to the request for financial assistance made on behalf of the United Mexican States (“Recipient”) acting through its *Secretaría de Hacienda y Crédito Público* (“SHCP”), 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 fifty thousand United States Dollars (U.S.$350,000) (“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 limitations to the provisions set forth in Article II of the Annex to this Agreement, the Recipient shall carry out the Project through the Executing Entity. The Recipient shall be
assisted by NAFIN, a Mexican development bank, who will act as a financial agent for the purposes of the Project.

The Recipient and NAFIN represent, by confirming its 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 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 on the date of its countersignature by the Recipient upon receipt by the World Bank of this countersigned copy of this agreement and a 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 pp Christoph Kurowshki
Gloria M. Grandolini
Director
Country Management Unit
Colombia and Mexico

AGREED:

UNITED MEXICAN STATES

By: Ricardo Ochoa Rodríguez
Authorized Representative

Title: Titular de la Unidad de Asuntos Internacionales de Hacienda
Secretaria de Hacienda y Crédito Público

Date: August 31, 2010
NACIONAL FINANCIERA S.N.C.

By: Danielle Pellat Thome  
Authorized Representative  

Title: Directora de Organismos Financieros Internacionales  

Date: August 31, 2010  

IN WITNESS:  

TESORERÍA DE LA FEDERACIÓN  

By: Irene Espinosa Cantellano  
Authorized Representative  

Title: Tesorera de la Federación  

Date: August 31, 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.

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, and the following additional terms have the following meanings:

(a) “Contingency Plan” means the plan referred to in Section 2.01, Part 2(b)(ii) of this Agreement;

(b) “IT” means information technology;

(c) “IT Infrastructure and/or IT System” means the Recipient’s information technology infrastructure and/or information operating system (both the hardware and software that are used to store, retrieve, and manipulate information, and support business risk management and governance);

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

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

(f) “TESOFE” or “Executing Entity” means *Tesorería de la Federación*, the Recipient’s treasury department responsible for managing the Recipient’s funds and securities operating within SHCP;

(g) “Working Group” means the group referred to in Section 2.01, Part 2(a)(ii) of this Agreement; and

(h) “Working Plan” means the plan referred to in Section 2.01, Part 2(a) (iii) of this Agreement.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objectives of the Project are: (a) to diagnose TESOFE’s current IT Infrastructure aimed to strengthen TESOFE’s institutional capacity by designing adequate systems and internal control methodologies; (b) to establish a working plan which defines further steps to be taken by TESOFE in terms of controls and IT Infrastructure to support future operation levels. The Project consists of the following parts:
Part 1. Diagnostic of TESOFE’s Operating Systems and Methodologies

(a) Analysis of TESOFE’s processes vis-à-vis the corresponding IT Infrastructure that supports those processes aimed at evaluating, inter alia, the alignment of processes with the corresponding systems, the level of system’s integration, and the flow of critical and confidential information between the systems.

(b) Assessment of TESOFE’s current IT and communication infrastructures and capacity for future levels of operations aimed at strengthening said infrastructures.

(c) Analysis and diagnosis of the levels of reliability, accuracy, efficiency, integrity and availability of the information generated and stored through TESOFE’s IT systems.

Part 2. Establishment of the Basis for the Implementation of TESOFE’s Systems Improvements

(a) (i) Carrying out of a workshop to present the results of the analysis and diagnostics carried out under Part 1 of Section 2.01 of this Annex.

(ii) Creation of a working group composed of members from TESOFE and other departments of SHCP in charge of determining which of the recommendations derived from the analysis and diagnostics described under Part 1 of Section 2.01 of this Annex will be carried out by TESOFE.

(iii) Development of a Working Plan by the Working Group to implement the recommendations derived from the analysis and diagnostics under Part 1 of Section 2.01 of this Annex.

(b) Implementation of the Working Plan by, inter alia, drafting: (i) a new operating manual; (ii) a contingency plan with procedures to follow in case of materialization of any relevant risk in TESOFE’s operating control environment; and (iii) terms of reference for the formation of a corporate governance mechanism (e.g. a risk management committee).

(c) Designing of the structure of a new IT System for TESOFE, or an upgrade of TESOFE’s existing IT System to support future operational levels.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient, through TESOFE 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 to under Section 2.03 (a) 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.

2.03. Without limitation to the provisions of Section 2.02 of this Article, the Recipient, through TESOFE, 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 a financial agent of the Recipient and for the purposes of the Project, meaning that, *inter alia*, NAFIN agrees to represent the Recipient *vis-à-vis* the Bank for purposes of submitting withdrawal applications to the World Bank in form and substance sufficient to justify disbursement by the Bank to the Recipient of Grant proceeds and agrees to maintain and operate an account in compliance with the terms of this Agreement; and

(ii) The Recipient, through SHCP (through TESOF) and NAFIN shall agree to abide by the Anti-Corruption Guidelines and the Recipient, through TESOF, 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 under said *Contrato de Apoyo Financiero No Reembolsable*.

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

(ii) Except as the World Bank shall otherwise agree, neither the Recipient, through TESOF, 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.

(iii) The Recipient, through TESOF, 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*.

2.04. **Institutional and Other Arrangements.** The Recipient, through TESOF, shall provide the following in-kind counterpart contributions to the Project: office facilities, counterpart staff time, trainee staff time, administrative support and Project audit.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient, through TESOF, 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 such period as shall be indicated in the World Bank’s request and shall be furnished to the World Bank not later than one month after the date of such request.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

(i) The Recipient’s approval of the formation of a risk management committee.

(ii) TESOF’s approval of a Contingency Plan.

(iii) The creation of TESOF’s Working Group.
(c) The Recipient, through TESOFE, 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 six months after the Closing Date.

2.06. **Financial Management.** (a) The Recipient, through TESOFE, 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 TESOFE, 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 year, covering the calendar year, in form and substance satisfactory to the World Bank.

(c) The Recipient, through TESOFE, 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 a period up to eighteen (18) months. 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.

2.07. **Procurement**

(a) **General.** All 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


(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 Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Non-consultant Services**

Non-consultant 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 the World Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Quality-based Selection; (B) Least Cost Selection; and (C) Selection based on Consultants’ Qualifications.

(e) Review by the World Bank of Procurement Decisions. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: the first contract to be awarded in accordance with each procurement method. 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>(1) Consultants’ Services</td>
<td>343,800</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Training</td>
<td>6,200</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>350,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section, the term “Training” means reasonable expenditures (other than consultants’ services) incurred by the Recipient in relation to the training activities described in Section 2.01, Part 2(a) (i) of this Agreement, including, *inter alia*, costs related to the carrying out of workshops and training activities, including logistic costs, facilities and equipment rentals, material printing, and distribution expenses not otherwise covered under this paragraph.

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, except that withdrawals up to an aggregate amount not to exceed $70,000 equivalent may be made for payments made prior to this date but on or after August 10, 2010, for Eligible Expenditures under Category (1).
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 May 10, 2011, 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 the Recipient’s *Titular de la Unidad de Asuntos Internacionales de Hacienda*.

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.”