Re: United Mexican States: Forest Carbon Partnership Facility REDD+ Readiness Preparation Support (Grant No. TF010261)

Dear Sirs,

I wish to refer to Resolution PC2008-2 of the Participants Committee of the Forest Carbon Partnership Facility ("FCPF") regarding Selection of REDD+ Country Participants ("Resolution PC2008-2").

Resolution PC2008-2 provides that subject to the availability of funds, eligible REDD+ Country Participants may receive grant funding of up to three million eight hundred thousand United States Dollars (USD3,800,000) for formulating and carrying out a Readiness Preparation Proposal ("R-PP").

The United Mexican States ("Recipient") was selected as a REDD+ Country Participant. The Participants Committee of the FCPF ("PC") has reviewed the R-PP submitted by the Recipient’s National Forest Commission ("Comisión Nacional Forestal") ("Executing Entity") and acknowledged the great efforts made by the Recipient in formulating its R-PP. Accordingly, the PC through its Resolution PC/5/2010/2, decided to allocate grant funding to the Recipient in the amount of up to three million six hundred thousand Dollars (USD3,600,000) to enable it to move ahead with preparation for readiness,
subject to the terms and conditions set out in said Resolution. Further, the PC approved, through its Resolution PC/Electronic/2012/1, the allocation of additional grant funding to the Recipient in the amount of up to two hundred thousand Dollars (USD200,000) (together with the above mentioned USD3,600,000) for the purpose of strengthening the Recipient’s national feedback and grievance redress mechanism, subject to the terms and conditions set out in said Resolution.

In response to the request for financial assistance made on behalf of the Recipient by the Executing Entity and the decisions of the PC referred to above, I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as trustee of the Readiness Fund for the FCPF, proposes to extend to the Recipient the Grant in the amount of three million eight hundred thousand Dollars (USD3,800,000 grant, the “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 Readiness Preparation Activities described in the Annex.

This Grant is funded out of the above mentioned FCPF trust fund for which the World Bank receives periodic contributions from the donors to the trust fund. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represented by its Ministry of Finance and Public Credit (Secretaria de Hacienda y Crédito Público), Nacional Financiera, S.N.C. (NAFIN, acting as Recipient’s financial agent) and the Executing Entity represent, by confirming their agreement below, that they are authorized to enter into this Agreement and, in case of the Executing Entity, to carry out the Readiness Preparation Activities in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s, NAFIN’s and the Executing Entity’s agreement to the foregoing by having an authorized official of the Recipient, NAFIN and the Executing Entity sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of the countersigned copy of this Agreement, this Agreement shall become effective as of the date specified by the World Bank in accordance with Article V of the Annex to this Agreement; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 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
(Acting as Trustee of the Readiness Fund for the Forest Carbon Partnership Facility)

By
Gloria M. Grandolini
Director
Colombia and Mexico
Latin America and the Caribbean Region

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AGREED:

UNITED MEXICAN STATES
SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

By: [Signature]

(Authorized Representative)

Name: Ing. Juan Bosco Martí Ascencio

Title: Titular de la Unidad de Asuntos Internacionales de Hacienda

Date: Marzo 24, 2014

NACIONAL FINANCIERA, S.N.C.

By: [Signature]

(Authorized Representative)

Name: Lic. Juan Pablo Newmou

Title: DGA Financiero

Date: 21- March - 2014

COMISION NACIONAL FORESTAL

By: [Signature]

(Authorized Representative)

Name: Ing. Jorge Rosado Pérez

Title: Director General

Date: Marzo 27, 2014

Enclosures:


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


Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated February 15, 2012 (“Standard Conditions”), with the modifications set forth below, constitute an integral part of this Agreement:

(a) The following term and definition shall be added to the Appendix to the Standard Conditions as paragraph 18 bis to read as follows:

18bis “Readiness Preparation Activities” means the activities, described in the Agreement, for which the Grant is made, as the description of said activities may be amended from time to time by agreement between the Recipient and the World Bank.”

(b) the term “Project” and its definition shall be deleted in their entirety from the Standard Conditions; and all references throughout the Standard Conditions to the term “Project” shall be deemed to refer to the “Readiness Preparation Activities.”

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, the Charter Establishing the Forest Carbon Partnership Facility (“Charter”), or in this Agreement. For the purposes of this Agreement the following terms have the meaning given to them as follows:

(a) “ENAREDD+” means Estrategia Nacional para REDD+, the Recipient’s National Strategy on REDD+.

(b) “ENAREDD+ Consultation Plan” means the document prepared by the Recipient’s Executing Entity and acceptable to the World Bank, which describes the participatory process with civil society to be used for the national consultation on the ENAREDD+ and includes the scale, scope, representation information, schedule and budget for the carrying out of said Plan, as the same may be modified from time to time by agreement between the Recipient’s Executing Entity and the World Bank.

(c) “ESMF” means the environmental and social management framework acceptable to the World Bank, which will provide guidance regarding the management of environmental and social issues during the implementation of World Bank financed REDD+ investments.

(d) “Indigenous Peoples Planning Framework” or “IPPF” means the Recipient’s framework, acceptable to the World Bank and endorsed by a representative group of indigenous leaders, which will provide a clear process and criteria for the development of specific Indigenous Peoples Plans that may be needed and the process for attaining and documenting broad community support at the regional/local level for any future World Bank investments related to REDD+ (including investments under the Carbon Fund of the FCPF).

(e) “Operating Costs” means the reasonable incremental operating costs under the Readiness Preparation Activities incurred by the Executing Entity for purposes of the implementation,
management, and monitoring and evaluation of the Readiness Preparation Activities, on account of office supplies and consumables, utilities, bank charges, communications, mass media and printing services, vehicle rental, operation, maintenance and insurance, office space rental, building and equipment maintenance, domestic travel, lodging and subsistence allowances, but excluding salaries, fees, honoraria and bonuses of members of the Executing Entity.

(f) “Operational Manual” means the manual dated March 12, 2014, acceptable to the World Bank and referred to in Section 2.02 (d) of this Agreement, as the same may be modified from time to time by agreement between the Recipient and the World Bank.

(g) “Process Framework” or “PF” means the Recipient’s framework acceptable to the World Bank and included as part of the ESMF, to guide the mitigation of potential negative impacts on the livelihoods of populations as part a result of the future World Bank investments related to REDD+ (including under the Carbon Fund of the FCPF).

(h) “REDD+” means reducing greenhouse gas emissions from deforestation and forest degradation, conservation of forest carbon stocks, sustainable management of forest, and enhancement of forest carbon stocks in developing countries.

(i) “REDD+ Early Actions” means a set of institutionally articulated efforts at the subnational level to address the causes of forest loss in a territory through policy instruments and specific actions, including the piloting of innovative and unique local governance models related to land-use management with the objective to plan, guide and assist groups of communities in landscape-based management and to help harmonize government interventions in the rural sector.

(j) “SEPA” means the World Bank’s publicly accessible procurement plans execution system.

(k) “SESA” means the strategic environmental and social assessment, a methodology that combines analytical work and a participatory process to analyze the strategic options being proposed in order to inform and generate inputs for the ENAREDD+. The SESA process is characterized by a strong analysis of the drivers of deforestation and the strategic options and a participatory approach to reviewing the potential environmental and social safeguard issues that will need to be considered during the preparation of the ENAREDD+ and the REDD+ Readiness process.

(l) “SESA Workplan” means the strategic environment and social assessment document, dated February 19, 2014, prepared by the Executing Entity in a manner acceptable to the World Bank, which identifies the activities to be carried out during readiness to assess the risks and benefits associated with the strategic options of the ENAREDD+, as defined in the third version of the ENAREDD+ and that includes: (i) a summary of the work completed during the period 2011-2013; (ii) the priority activities to be undertaken in the period 2013-2015; (iii) the process to incorporate existing participation platforms to the ENAREDD+; and (iv) a budget and timeline for the implementation of said Workplan, as the same may be modified from time to time by agreement between the Recipient’s Executing Entity and the World Bank.

(m) “Workshops and Training” means the reasonable costs for purposes of training under the Readiness Preparation Activities (not financed under Consultants’ Services), attributable to seminars, workshops and study tours, and including domestic and international travel costs and subsistence allowances for training participants, costs associated with securing the services of trainers and speakers, rental of training facilities, preparation and reproduction of training
materials, refreshments and other costs directly related to training preparation and implementation.

(n) “World Bank’s Safeguards Policies” means the World Bank’s operational policies and procedures set forth in the Association’s Operational Manual under OP/BPs 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60 published at www.WorldBank.org/opmanual

Article II
Execution of Readiness Preparation Activities

2.01. Objectives and Description. The Project Development Objective is to support a participatory and inclusive process for the finalization of Mexico’s National REDD+ strategy (ENAREDD+). The Readiness Preparation Activities consist of the following parts:

Part 1: National Readiness Management Arrangements and Stakeholder Consultation

(a) Strengthen the capacity of the Executing Entity, through the provision of technical assistance and the financing of Operating Costs, to: (i) implement, manage and administer the Readiness Preparation Activities; (ii) support the dialogue and participative process with stakeholder groups at the national and state-level through the implementation of regional workshops on REDD+ (foros regionales); and (iii) disseminate relevant information and materials.

(b) Support of the consultation process with relevant stakeholders at national, state and local levels through the provision of technical assistance and the financing of Operating Costs, to: (i) carry out the national consultation on the ENAREDD+, in accordance with the ENAREDD+ Consultation Plan; (ii) support local civil society organizations in the dissemination of REDD+ related information; (iii) prepare culturally relevant and user friendly REDD+ related communication materials; and (vi) conduct the systematization and reporting of consultations and workshops results.

Part 2: Development of the National REDD+ Strategy (ENAREDD+)

(a) Provision of technical assistance and financing of Operating Costs to: (i) identify barriers and alternatives to inter-sectorial policy coordination for the implementation of the ENAREDD+; (ii) systematize information related to the implementation of activities in the REDD+ Early Action Areas; and (iii) analyze the legal framework applicable to the implementation of the ENAREDD+.

(b) Provision of technical assistance and financing of Operating Costs to: (i) identify critical issues related to the implementation of ENAREDD+, identified as part of the SESA; and (ii) develop scenarios to model the impacts of strategic options for REDD+.

(c) Strengthening of feedback and grievance mechanisms at the state level, in particular for REDD+ Early Action Areas, through the provision of technical assistance and financing of Operating Costs.

(d) Strengthening the capacity of the Executing Entity, through the provision of technical assistance and financing of Operating Costs for: (i) the implementation of the SESA Workplan; (ii) the
preparation of the Environmental and Social Management Framework (ESMF); and (iii) the preparation of an Indigenous Peoples Planning Framework and Process Framework, if required.

2.02. **Execution Generally.** (a) The Recipient, NAFIN and the Executing Entity declare their commitment to the objectives of the Readiness Preparation Activities. To this end, the Recipient shall cause the Executing Entity to carry out the Readiness Preparation Activities with assistance of NAFIN in accordance with the provisions of: (i) Article II of the Standard Conditions; (ii) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); (iii) this Article II; (iv) the ENAREDD+ Consultation Plan; and (v) the SESA Workplan.

(b) The Recipient and the Executing Entity shall enter into a contract (the *Mandato Agreement*) with NAFIN satisfactory to the World Bank, whereby, *inter alia*:

(i) the Executing Entity agrees to carry out the Readiness Preparation Activities in accordance with the provision of this Agreement, including the provisions set forth in Sections 2.02.(a), 2.03, 2.04, 2.05 and 2.06 of this Agreement;

(ii) the Recipient, through SHCP, and the Executing Entity have the right to, in case of fraud or corruption (as defined in the Anti-Corruption Guidelines) provide for the early termination of the *Mandato Agreement* or temporarily suspend its effects and/or require the restitution of the funds transferred to NAFIN in relation to the Readiness Preparation Activities;

(iii) NAFIN has the right to, in case of fraud or corruption (as defined in the Anti-Corruption Guidelines) provide for the early termination of the *Mandato Agreement* or temporarily suspend its effects and/or require the restitution of the funds transferred to the Executing Entity under the *Mandato Agreement*; and

(iv) the Executing Entity agrees to fully cooperate with NAFIN to ensure that the Executing Entity is able to comply with all of its obligations under the *Mandato Agreement*.

(c) The Recipient, through SHCP and the Executing Entity shall cause NAFIN to exercise its rights and carry out its obligations under the *Mandato Agreement* in such a manner as to protect the interests of the World Bank and to accomplish the purposes of the Grant. Except as the World Bank may otherwise agree, the Recipient, through SHCP and the Executing Entity shall not amend, terminate, waive or fail to enforce any provision of the *Mandato Agreement*. In case of any conflict between the terms of the *Mandato Agreement* and those of this Agreement, the terms of this Agreement shall prevail.

(d) The Recipient shall cause the Executing Entity to prepare and thereafter maintain throughout the implementation of the Readiness Preparation Activities implementation an operational manual (the “Operational Manual”) satisfactory in form and substance to the World Bank, therein setting forth rules, methods, guidelines, standard documents and procedures for the carrying out of the Readiness Preparation Activities including, *inter alia*, the following: (i) a detailed description of the Readiness Preparation Activities; (ii) the administrative, financial, accounting, auditing, procurement and disbursement procedures for the implementation of the Readiness Preparation Activities, including the relevant standard documents; and (iii) the plan for the monitoring, evaluation and supervision of the Readiness Preparation Activities, including the performance
indicators.

2.03 **Safeguards.** The Recipient shall cause the Executing Entity to ensure that all terms of reference for any technical assistance or studies carried out under the Readiness Preparation Activities and frameworks prepared on the basis of the SESA Workplan under the Readiness Preparation Activities pursuant to Section 2.01 of this Agreement are consistent with, and pay due attention to, the World Bank’s Safeguards Policies, as well as the Recipient’s own laws relating to the environment and social aspects.

2.04 **Mid-term Progress Report and Completion Report.** The Recipient shall cause the Executing Entity, not later than November 30, 2014, to prepare and furnish to the World Bank a mid-term progress report on the Readiness Preparation Activities in accordance with terms of reference acceptable to the World Bank, including the provisions of Section 6.3(b) of the Charter and Resolutions PC/7/2010/3 and PC/12/2012/2. The Recipient shall cause the Executing Entity to also prepare and furnish to the World Bank not later than six months after the Closing Date, a Completion Report in accordance with the provision of Section 2.06(b) (ii) of the Standard Conditions.

2.05 **Financial Management.** (a) The Recipient shall cause the Executing Entity to ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall cause the Executing Entity to ensure that interim unaudited financial reports for the Readiness Preparation Activities 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.

(c) The Recipient shall cause the Executing Entity to have its Financial Statements for the Readiness Preparation Activities 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 (1) fiscal year of the Recipient. The audited Financial Statements for each period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.06 **Procurement.** All goods, non-consulting services, and/or consulting services required for the Readiness Preparation Activities and to be financed, fully or partially, out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers,” dated January 2011 (“Procurement Guidelines”), and the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers,” dated January 2011 (“Consultant Guidelines”).

2.07 Any contract for Eligible Expenditures to be financed in full or in part out of the proceeds of the Grant shall be included in the procurement plan prepared by the Recipient’s Executing Entity and approved by the World Bank in accordance with the Procurement Guidelines and the Consultant Guidelines, prior to initiating the procurement process for any such contract.
Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient shall cause NAFIN to 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 (copying NAFIN in such notice) (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, non-consulting Services, Operating Costs and Training for Readiness Preparation Activities under Part 1 (a), Part (b) (iii), Part (b)(iv) and Part 2.</td>
<td>2,328,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ Services, non-consulting Services, Operating Costs and Training for Readiness Preparation Activities under Part 1 (b)(i).</td>
<td>672,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Consultants’ Services, non-consulting Services, Operating Costs and Training for Readiness Preparation Activities under Part 1(b)(ii).</td>
<td>800,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>3,800,000</td>
<td></td>
</tr>
</tbody>
</table>

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made:

(a) prior to the date of countersignature of this Agreement by the Recipient, NAFIN and the Executing Entity, except that withdrawals up to an aggregate amount not to exceed USD760,000 equivalent may be made for payments made prior to this date but in no case earlier than twelve (12) months prior to the countersignature by the Recipient of this Agreement, for expenditures under Category (1); and

(b) for expenditures under Category (2), unless the ENAREDD+ Consultation Plan has been prepared and adopted by the Executing Entity.
3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is October 31, 2016.

**Article IV**

**Additional Remedies**

4.01. **Additional Event of Suspension.** The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the Default in Implementation set forth in Section 6.5 (a) (i) and (ii) of the Charter.

**Article V**

**Effectiveness**

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished that the conditions specified below, and in Section 5.02 of this Agreement, have been satisfied:

(a) the execution and delivery of this Agreement on behalf of the Recipient, NAFIN and the Executing Entity have been duly authorized or ratified by all necessary governmental and corporate action; and

(b) the Mandato Agreement has been duly executed by the parties thereto;

5.02. As part of the evidence to be furnished pursuant to Section 5.01 of this Agreement, there shall be furnished to the World Bank:

(a) an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank showing, on behalf of the Recipient, NAFIN and the Executing Entity that this Agreement has been duly authorized or ratified by, and executed and delivered on their behalf and is legally binding upon them in accordance with its terms; and

(b) an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank showing, on behalf of the Recipient, NAFIN and the Executing Entity that the Mandato Agreement has been duly authorized or ratified by, and executed and delivered on behalf of the Recipient, NAFIN and the Executing Entity and is legally binding upon the Recipient, NAFIN and the Executing Entity in accordance with the Mandato Agreement’s terms.

5.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effectiveness Date”).

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Article VI
Recipient's Representative; Addresses

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

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 Asuntos Internacionales de Hacienda
   Insurgentes Sur 1971
   Torre III, tercer piso
   Colonia Guadalupe Inn
   01020 México, D.F.

6.03.  Notifications to the Recipient under this Agreement shall be copied to:

   National Financiera S.N.C.
   Dirección de Organismos Financieros Internacionales
   Insurgentes Sur No. 1971, Anexo Piso Financiero, Nivel Jardín Col. Guadalupe Inn
   C.P. 01020 Delegación Álvaro Obregón, México D.F.
   Facsimile: 011-52 55325-6810

   Comisión Nacional Forestal
   Unidad de Asuntos Internacionales y Fomento Financiero
   Periférico Poniente No. 5360,
   Col. San Juan de Ocotlán
   CP 45019
   Zapopan, Jalisco
   México

6.04.  **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 1-202-477-6391
   Facsimile: 64145 (MCI)