Mr. Gerardo Cajiga Estrada  
Secretario de Finanzas  
Gobierno del Estado de Oaxaca  
Centro Administrativo del Poder Ejecutivo y Judicial  
General Porfirio Díaz “Soldado de la Patria”,  
Edificio D Saúl Martínez  
Av. Gerardo Pandalf No 1.  
Reyes Mantecon, San Bartolo Coyotepec  
Oaxaca, Mexico

Re: STATE OF OAXACA: IDF Grant No. TF012320  
Strengthening Oaxaca’s Management Capacities Project

Dear Mr. Cajiga,

In response to the request for financial assistance made on behalf of United Mexican States (“Member Country”) represented by its Secretaría de Hacienda y Crédito Público, for the benefit of the Estado de Oaxaca (“Recipient”), acting through its Secretaría de Finanzas, 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 thousand United States Dollars (U.S.$300,000) (“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”).

The Recipient represents, by confirming its agreement below, that: (a) it is 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; and (b) entering into this Agreement and undertaking the obligations related to the execution of the Project set forth in the Annex of this Agreement does not contravene Article 117, paragraph VII of the Member Country’s National Constitution.

Please confirm the Recipient and Member Country’s agreement to the foregoing by having authorized officials of the Recipient and the Member Country sign and date the enclosed copy of this Agreement, and returning it to the World Bank.
Upon receipt by the World Bank of a copy of the countersigned Agreement, this Agreement shall become effective as of the date of the Recipient’s countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 90 days after the date of signature of this Agreement by the World Bank,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: Gloria M. Grandolini
Director
Colombia and Mexico
Latin America and the Caribbean Region

AGREED:

ESTADO DE OAXACA

By: ________________________________
Authorized Representative

Name: LIC. GERARDO CAJIGA ESTRADA

Title: SECRETARIO DE FINANZAS DEL PODER EJECUTIVO DEL ESTADO DE OAXACA.

Date: JANUARY 28, 2013

IN WITNESS THEREOF:

UNITED MEXICAN STATES
Secretaría de Hacienda y Crédito Público

By: ________________________________
(Authorized Representative)

Name: LIC. MARGARITA PEREZ VILLASEÑOR

Title: DIRECTORA GENERAL ADJUNTA PARA AMÉRICA DEL NORTE, ASIA, PACÍFICO Y EL CARIBE

Date: FEBRUARY 20, 2013
Enclosures:


(2) 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") 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.

Article II
Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to strengthen selected institutions of the Recipient, to improve governance and management capacity for better results and effectiveness through: (a) the strengthening of the Recipient’s public sector management capacity for investment and budgeting; and (b) the building of technical capacity of selected public officials on social conflict resolution.

The Project consists of the following parts:

**Part 1: Strengthening Governance through the Improvement of Core Public Sector Management Systems**

(a) Provision of technical assistance to: (i) assess the Recipient’s current programmatic budget classification; (ii) prepare a proposal for an enhanced programmatic budget classification; and (iii) implement the proposed budget classification in two key institutions of the Recipient’s public administration.

(b) Provision of technical assistance to strengthen the capacity of the Recipient’s public investment staff (including, inter alia, staff within the Recipient’s Secretariat of Finance) in three key sectors through: (i) the design of an e-learning course; and (ii) the delivery of training courses on public investment management.

(c) Provision of technical assistance to a selected social sector program of the Recipient, to improve its service delivery capacities by strengthening its procurement processes.

**Part 2: Strengthening Conflict Resolution Capacities to Improve Public Management and Governance**

(a) Strengthening of the Recipient’s conflict resolution capacities through: (i) the carrying out of a south to south exchange program with a relevant country, to discuss and analyze comparable experiences in mediation and conflict resolution; and (ii) the provision of specialized training on tools and mechanisms to address social and political conflicts.

(b) Provision of technical assistance to: (i) carry out a diagnostic of the Recipient’s current mechanisms for conflict resolution in a relevant sector; (ii) analyze civil society organizations that have a presence in said sector and contribute to, or have the potential for, establishing a constructive dialogue during conflict; and (iii) develop a participatory mechanism to address social demands and incorporate the
participation of civil society in conflict resolution efforts in relevant sectors at the state level, including, recommendations for its implementation.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through its *Secretaría de Finanzas*, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) 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”); and (c) this Article II.

2.03. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient 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 indicators acceptable to 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.

(b) The Recipient 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 (4) four months after the Closing Date.

2.04. **Financial Management.** (a) The Recipient 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 shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than (1) one month after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements 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 (6) six months after the end of such period.

2.05. **Procurement.** All goods, non-consulting services, and/or consulting services required for the Project 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”).

2.06. 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 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.** (a) The Recipient may 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) Consultants’ Services</td>
<td>281,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Training and Workshops</td>
<td>19,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>300,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

(b) For the purposes of this paragraph, the term “Training and Workshops” means the reasonable costs, as shall have been approved by the World Bank, for training and workshops conducted under the Project, including, *inter alia*: tuition, travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training and workshop preparation and implementation (but excluding goods and consultants’ services).

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.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is (3) 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 its obligations shall terminate if, by February 28, 2013, the World Bank has not received evidence that the Recipient: (a) has signed any consulting services contract required for the Project; and/or (b) has requested a withdrawal of Grant proceeds; 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.

-6-
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 Secretary of Finance of the State of Oaxaca.

5.02. **Recipient's Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

    Centro Administrativo del Poder Ejecutivo y Judicial
    General Porfirio Díaz “Soldado de la Patria”
    Edificio Saúl Martínez
    Av. Gerardo Pandalf No1.
    Reyes Mantecón, San Bartolo Coyotepec
    Oaxaca, Mexico

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
    Facsimile: 1-202-477-6391