Global Environment Facility
Grant Agreement

(Coastal Watersheds Conservation in the Context of Climate Change Project)

among

UNITED MEXICAN STATES

and

NACIONAL FINANCIERA, S.N.C.

and

COMISION NACIONAL FORESTAL

and

FONDO MEXICANO PARA LA CONSERVACION DE LA NATURALEZA, A.C

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
acting as an Implementing Agency of the Global Environment Facility

Dated December 11, 2013
AGREEMENT dated December 11, 2013, entered into among: UNITED MEXICAN STATES as represented by the Secretariat of Finance and Public Credit ("UMS" a Recipient of part of the proceeds of the herein below defined Grant); NACIONAL FINANCIERA, S.N.C. ("NAFIN" acting as financial agent of UMS for purposes of part of the proceeds of the herein below defined Grant); COMISION NACIONAL FORESTAL ("CONAFOR" acting as executing agency of UMS for purposes of part of the proceeds of the herein below defined Grant); FONDO MEXICANO PARA LA CONSERVACION DE LA NATURALEZA, A.C. ("FMCN" a Recipient of the rest of the proceeds of the herein below defined Grant); and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("World Bank" acting as an implementing agency of the Global Environment Facility ("GEF")).

WHEREAS UMS, through its Comisión Nacional de Áreas Naturales Protegidas ("CONANP"), has committed to provide funds estimated at forty nine million eight hundred seventy six thousand United States Dollars (USD49,876,000) to support part of the Project, as evidenced by CONANP’s letter to the World Bank dated April 24, 2013;

WHEREAS CONAFOR has committed to provide funds estimated at one hundred fifty two million eight hundred forty one thousand United State Dollars (USD152,841,000) to support part of the Project, as evidenced by CONAFOR’s letter to the World Bank dated March 12, 2013;

WHEREAS FMCN has committed to provide funds estimated at twenty two million fifty nine thousand United States Dollars (USD22,059,000) to support part of the Project, as evidenced by FMCN’s letter to the World Bank dated March 5, 2013;

WHEREAS the Instituto Nacional de Ecología y Cambio Climático ("INECC") has committed to provide in-kind contributions estimated at three million five hundred three thousand United States Dollars (USD3,503,000) to support part of the Project, as evidenced by INECC’s letter to the World Bank dated April 5, 2013; and

WHEREAS the World Bank has agreed, on the basis, inter alia, of the foregoing, to extend the herein below defined Grant to UMS and FMCN (as Recipients) upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereby agree as follows:
Article I
Standard Conditions; Definitions

1.01. 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 in Section II of the Appendix to this Agreement, constitute an integral part of this Agreement.

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 Recipients declare their commitment to the objective of the project described in Schedule 1 to this Agreement ("Project"). To this end: (a) FMCN shall carry out the Project (except for Part 2.1 of the Project); and (b) CONAFOR shall carry out Part 2.1 of the Project; all of this in accordance with the provisions of Article II of the Standard Conditions, the Mandato Agreement and the Inter-institutional Agreement.

2.02. Without limitation to the provisions of Section 2.01 of this Agreement and except the Recipients and the World Bank shall otherwise agree; the Recipients 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 Recipients, on the terms and conditions set forth or referred to in this Agreement, a grant in a total amount equal to thirty nine million five hundred eighteen thousand Dollars (USD39,518,000) ("Grant") to assist in financing the Project, and to be distributed as:

(a) the amount of nine million ninety one thousand United States Dollars (USD9,091,000) to UMS; and

(b) the amount of thirty million four hundred twenty seven thousand United States Dollars (USD30,427,000) to FMCN.
3.02. The Recipients 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 Events of Suspension referred to in Section 4.02 (k) of the Standard Conditions consist of the following:

(a) CONANP, CONAFOR, FMCN and/or INECC have withdrawn their monetary contribution to the Project referred to in the introductory section of this Agreement in a manner that does not allow the successful carrying out of the Project; and/or

(b) CONANP, CONAFOR, FMCN and/or INECC shall have failed to comply with any of their obligations under the Inter-institutional Agreement; and/or

(c) FGM shall have failed to comply with any of its obligations under the FMCN-FGM Agreement; and/or

(d) FONNOR shall have failed to comply with any of its obligations under the FMCN-FONNOR Agreement.

Article V
Effectiveness; Termination

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished that the conditions specified below have been satisfied:

(a) the execution and delivery of this Agreement, on behalf of the Recipients, NAFIN and CONAFOR, has been duly authorized or ratified by all necessary governmental and corporate actions;

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

(c) the Inter-institutional Agreement has been duly executed by the parties thereto.

5.02. As part of the evidence to be furnished pursuant to Section 5.01 (a) 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 that, on behalf of each of the Recipients, NAFIN and CONAFOR, that this Agreement has been duly
authorized or ratified by, and executed and delivered on behalf of each of the Recipients, NAFIN and CONAFOR and is legally binding upon each such party in accordance with its terms;

(b) an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank, showing that, on behalf of UMS, NAFIN and CONAFOR, that the Mandato Agreement has been duly authorized or ratified by, and executed and delivered on behalf of UMS, NAFIN and CONAFOR and is legally binding upon each such party in accordance with its terms; and

(c) an opinion or opinions satisfactory to the World Bank of counsel, acceptable to the World Bank, showing that, on behalf of FMCN, CONANP, CONAFOR, and INECC, that the Inter-institutional Agreement has been duly authorized or ratified on behalf of each of FMCN, CONANP, CONAFOR, and INECC and is legally binding upon each such party in accordance with its terms.

5.03 Except as the Recipients and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipients notice of its acceptance of the evidence required pursuant to Section 5.01 of this Agreement. If before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of any of the Recipients to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone, after consultation with the Recipients, the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.04. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement (the “Effectiveness Deadline”), unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section, which may in no case be no later than the eighteen (18) months after the World Bank’s approval of the Grant which expire on May 21, 2015. The World Bank shall promptly notify the Recipients of such later date.

Article VI
Representatives of the Recipients; Addresses

6.01. The Recipients’ representatives for the purposes of Section 7.02 of the Standard Conditions are: (a) the Titular de la Unidad de Asuntos Internacionales de Hacienda of Secretaria de Hacienda y Crédito Público (“SHCP”) for UMS; and (b) the Director General for FMCN.
6.02. The following addresses are specified for the purposes of Section 7.01 of the Standard Conditions:

For UMS:

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.

For FMCN:

Área de Conservación
Fondo Mexicano para la Conservación de la Naturaleza, A.C.
Jericó 26 Col Badillo CP 91190
Xalapa, Veracruz
Telephone: (228) 813-60-58 al 60

For the World Bank:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: Telex: Facsimile:
INTBAFRAD 248423 (MCI) or 1-202-477-6391
Washington, D.C. 64145 (MCI)

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

NAFIN:

Dirección de Organismos Financieros Internacionales
Insurgentes Sur No. 1971, Anexo Piso Financiero, Nivel Jardín
Col. Guadalupe Inn C.P. 01020
Delegación Alvaro Obregón, México D.F.

Facsimile: 011-52-55325-6677
CONAFOR:

Periférico Poniente 5360
Colonia San Juan de Ocotán
Zapopan, Jalisco, 45019
AGREED as of the day and year first above written.

UNITED MEXICAN STATES

By

FONDO MEXICANO PARA LA CONSERVACION DE LA NATURALEZA, A.C.

By

CONAFOR

By

NACIONAL FINANCIERA, S.N.C.

By

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
acting as an Implementing Agency of the
Global Environment Facility

By
SCHEDULE 1

Project Description

The objective of the Project is to promote integrated environmental management of selected coastal watersheds as a means to conserve biodiversity, contribute to climate change mitigation, and enhance sustainable land use.

The Project consists of the following parts:

Part 1. Creation and consolidation of Protected Areas

1. Carrying out of the capitalization of the FCC.

2. Supporting the creation of new Protected Areas and strengthening management effectiveness of new and existing Protected Areas through the financing of biodiversity conservation activities included in the Annual Operating Plans.

3. Carrying out of fundraising activities to obtain additional non-GEF funding for FCC to finance biodiversity conservation activities in selected Protected Areas and watersheds.

Part 2. Promoting sustainability within watersheds

1. Carrying out of the capitalization of the Biodiversity Fund as to generate sufficient income to finance the provision of PES.

2. Carrying out of Agro-ecosystem Subprojects.

3. Carrying out of Sustainable Forestry Management Subprojects.

Part 3. Enabling adaptive management by strengthening monitoring capacities

Strengthening of monitoring systems in selected watersheds including, inter alia: (i) the development of models of watersheds and their ecosystems services with the aim of establishing priority sites for Project implementation and producing integrated watersheds and/or sub-watersheds land management actions plans; and (ii) the carrying out, within selected Protected Areas and priority sites within the watersheds, of (a) deforestation and ecosystem degradation monitoring, (b) community hydrological monitoring, (c) biodiversity monitoring, (d) carbon monitoring, and (e) watershed-level workshops to analyze findings, data and share experiences.
Part 4. Innovative mechanisms for inter-institutional collaboration and promoting social participation

Carrying out of inter-institutional coordination and synergy activities (including networks, forums and learning communities) at the regional and local levels, involving state and municipal governments, civil society, and academic institutions, to promote cross-sectorial coordination, participation in, and oversight of integrated watersheds and/or sub-watersheds land management actions plans.

Part 5. Project management

Providing support to FMCN and CONAFOR, the Technical Project Committee, FGM and FONNOR for the implementation and supervision of the Project including, *inter alia*, the acquisitions of goods and the provision of technical assistance and Training required.
SCHEDULE 2

Project Execution

Section I.  Implementation and other Arrangements

A.  General Institutional Arrangements

1.  FMCN and CONAFOR shall operate and maintain, during the implementation of the Project, a Technical Project Committee ("Technical Project Committee") which shall be responsible for, *inter alia*, the overall oversight and supervision of the Project and shall be assigned with members, functions and responsibilities satisfactory to the World Bank; all as set forth in the Operational Manual.

2.  FMCN shall maintain, during the implementation of the Project, an implementation team, which shall be responsible for carrying out the technical, financial management, procurement and safeguard activities of the Project (except for Part 2.1 of the Project) and shall be comprised of personnel (in adequate numbers and with the experience satisfactory to the World Bank) and with functions and responsibilities satisfactory to the World Bank; all as set forth in the Operational Manual.

3.  CONAFOR shall maintain, during the implementation of the Project, an implementation team, which shall be responsible for carrying out the technical, financial management and safeguard activities of Part 2.1 of the Project and shall be comprised of personnel (in adequate numbers and with the experience satisfactory to the World Bank) and with functions and responsibilities satisfactory to the World Bank; all as set forth in the Operational Manual.

B.  Special Institutional Arrangements for FMCN

1.  For purposes of carrying out the Project (except for Part 2.1 of the Project), FMCN shall enter into an agreement with CONANP, CONAFOR and INECC ("Inter-institutional Agreement"), satisfactory to the World Bank, whereby, *inter alia*:

(a)  FMCN agrees to carry out the financial management (including the administration of the corresponding Grant funds), procurement and safeguard matters of the Project (except for Part 2.1 of the Project); and

(b)  CONANP, CONAFOR and INECC agree to: (i) provide technical advice for the carrying out of given activities under the Project (except for Part 2.1 of the Project), which fall under their administrative and jurisdictional responsibility; (ii) provide the in-kind and/or cash contributions referred to in the whereas clause of this Agreement; and
(iii) cooperate with FMCN in the carrying out of said activities under the Project including exchanging information, holding reviews and providing reports on the progress of activities under their responsibility; all in accordance with the terms and conditions set forth in this Agreement including the Anti-Corruption Guidelines, Operational Manual, and Safeguards Documents.

2. FMCN shall enter into, and thereafter maintain, a separate collaboration agreement, satisfactory to the World Bank:

   (a) with FGM ("FMCN-FGM Agreement"), whereby, inter alia: (i) FMCN agrees to make available to FGM, on a grant basis, part of the proceeds of the Grant to finance FGM’s Operating Costs; and (ii) FGM agrees to provide technical and administrative support to FMCN in the carrying out of parts of the Project in accordance with the terms and conditions set forth in this Agreement including the Anti-Corruption Guidelines, Operational Manual, and Safeguards Documents; and

   (b) with FONNOR ("FMCN-FONNOR Agreement"), whereby, inter alia: (i) FMCN agrees to make available to FONNOR, on a grant basis, part of the proceeds of the Grant to finance FONNOR’s Operating Costs; and (ii) FONNOR agrees to provide technical and administrative support to FMCN in the carrying out of parts of the Project in accordance with the terms and conditions set forth in this Agreement including the Anti-Corruption Guidelines, Operational Manual, and Safeguards Documents.

3. FMCN shall exercise its rights and carry out its obligations under the Inter-institutional Agreement, the FMCN-FGM Agreement and the FMCN-FONNOR Agreement in such manner as to protect the interests of the World Bank and the FMCN to accomplish the purposes of the Grant; and except as the World Bank shall otherwise agree, FMCN shall not assign, amend, abrogate, terminate, waive or fail to enforce the Inter-institutional Agreement, the FMCN-FGM Agreement and the FMCN-FONNOR Agreement or any provision thereof. In case of any conflict between the terms of the Inter-institutional Agreement, the FMCN-FGM Agreement and the FMCN-FONNOR Agreement and those of this Agreement, the terms of this Agreement shall prevail.

4. With respect to Part 1.1 of the Project, FMCN shall:

   (a) deposit within the FCC all the proceeds of the Grant disbursed under Category (1)(a). Once deposited, said proceeds shall constitute part of the FCC’s capital which shall be invested by FMCN as to generate sufficient income for purposes of financing, if applicable, additional activities similar to those set forth under Parts 1.2, 1.3, 2.2, 2.3, 3, 4 and 5 of the Project; which activities shall comply with the criteria and processes set
forth in the Operational Manual and applicable provision of this Agreement;

(b) invest the FCC’s capital in accordance with FMCN investment committee’s instructions, which instructions shall be based on the guidelines set forth in the Operational Manual; and

(c) ensure that the FCC is managed by qualified staff with experience and qualifications satisfactory to the World Bank.

5. (a) With respect to Parts 2.2 and 2.3 of the Project, FMCN shall enter into an agreement ("Subproject Agreement") with each of Beneficiary who will be carrying out an Agro-ecosystem Subproject and/or a Forestry Management Subproject, under terms and conditions, satisfactory to the World Bank, which agreement shall include the terms and conditions set forth in the Operational Manual; and

(b) FMCN shall exercise its rights and carry out its obligations under each Subproject Agreement in such manner as to protect the interests of the World Bank and FMCN and to accomplish the purposes of the Grant; and except as the World Bank shall otherwise agree, FMCN shall not assign, amend, abrogate, terminate, waive or fail to enforce any Subproject Agreement or any provision thereof. In case of any conflict between the terms of any Subproject Agreement and those of this Agreement, the terms of this Agreement shall prevail.

C. Specific Institutional Arrangements for CONAFOR

1. With respect of Part 2.1 of the Project, CONAFOR shall:

(a) deposit within the Biodiversity Fund all the proceeds of the Grant disbursed under Category (1)(b). Once deposited, said proceeds shall constitute part of the Biodiversity Fund’s capital which shall be invested by CONAFOR as to generate sufficient income for purposes of financing the carryout of ecosystem services through PES.

(b) invest the Biodiversity Fund’s capital in accordance with investment instructions issued by CONAFOR, which instructions shall be based on the guidelines set forth in the Operational Manual;

(c) cause BANORTE (acting as trustee of the Biodiversity Fund) to comply with the Anti-corruption Guidelines in a manner acceptable to the World Bank; and
(d) prior to making any PES: (i) select each Beneficiary in accordance with the criteria set forth in the Operational Manual; and (ii) enter into an agreement with each such Beneficiary under terms and conditions satisfactory to the World Bank, which agreement shall include the terms and conditions set forth in the Operational Manual.

D. Mandato Agreement

1. For purposes of carrying out Part 2.1 of the Project, UMS, through SHCP, shall enter into a contract (the Mandato Agreement) with NAFIN and CONAFOR, satisfactory to the World Bank, whereby:

(a) NAFIN agrees to act as financial agent of UMS with regard to Part. 2.1 of the Grant, meaning that, *inter alia*, NAFIN agrees to represent UMS *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 UMS referred to in the additional instructions cited in Section IV.A.1 of this Schedule 2, all of this in compliance with the terms of this Agreement;

(b) CONAFOR agrees to carry out said part of the Project;

(c) CONAFOR and NAFIN agree to abide and carry out the Project in accordance with, the provisions of this Agreement, including the Safeguards Documents, the Anti-Corruption Guidelines, and the Operational Manual;

(d) UMS, through SHCP, has right to, in case of fraud or corruption practices (as defined in the Anti-Corruption Guidelines) provide for the early termination of the Mandato Agreement, or temporarily suspend its effects, or, if applicable, require the restitution of funds transferred to NAFIN under the Mandato Agreement;

(e) NAFIN shall have the right to, in case of fraud of corruption (as defined in the Anti-Corruption Guidelines) provide for the early termination of the Mandato Agreement or temporarily suspend its effects, or, if applicable, require the restitution of funds transferred to CONAFOR under the Mandato Agreement; and

(f) CONAFOR and NAFIN agree to cooperate fully with each other to ensure that NAFIN and CONAFOR are able to comply with all of NAFIN’s and CONAFOR’s obligations referred to in this Agreement.

2. UMS, through SHCP, 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, UMS, through SHCP, 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.

E. Operational Manual

1. FMCN and CONAFOR shall carry out, or cause to be carried out, the Project in accordance with a manual ("Operational Manual"), satisfactory to the World Bank, which shall include, inter alia:

(a) the Project administrative, accounting, auditing, reporting, financial (including cash flow aspects in relation thereto), procurement and disbursement procedures of the Project;

(b) the guidelines governing the operation of the Technical Project Committee;

(c) the investment guidelines referred to in Section I.B.4(b) of this Schedule 2;

(d) the investment guidelines referred to in Section I.C.1(b) of this Schedule 2;

(e) the operational manual of the Biodiversity Fund;

(f) the Project Indicators; and

(g) the Safeguard Documents.

2. Except as the World Bank shall otherwise agree in writing, FMCN and/or CONAFOR shall not abrogate, amend, suspend, terminate, waive or otherwise fail to enforce the Operational Manual or any provision thereof. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

F. Anti-Corruption

The Recipients, NAFIN and CONAFOR shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

G. Safeguards

1. (a) FMCN shall carry out, or cause to be carried out, the Project (except for Part 2.1 of the Project), in accordance with the Environmental Management and Social Framework, the Indigenous Peoples Planning Framework and the Process Framework.
(b) FMCN shall ensure, or cause to be ensured, that the Environmental Management and Social Framework, the Indigenous Peoples Planning Framework, and the Process Framework, or any provision thereof, shall not be amended, suspended, abrogated, terminated or waived, except with the prior written consent of the World Bank.

2. (a) CONAFOR shall carry out or cause to be carried out, Part 2.1 of the Project in accordance with the Environmental Management and Social Framework and the Indigenous Peoples Planning Framework For Part 2.1 of the Project.

(b) CONAFOR shall ensure or cause to be ensured, that the Environmental Management and Social Framework and the Indigenous Peoples Planning Framework For Part 2.1 of the Project or any provision thereof, shall not be amended, suspended, abrogated, terminated or waived, except with the prior written consent of the World Bank.

3. FMCN shall ensure or caused to be ensured, that the terms of reference for any consultancy in respect of any Project activity shall be satisfactory to the World Bank following its review thereof and, to that end, such terms of reference shall duly incorporate the requirements of the World Bank Safeguards Policies then in force, as applied to the advice conveyed through such technical assistance.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. FMCN, with the assistance of CONAFOR, 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 Project Indicators. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty five (45) days after the end of the period covered by such report.

2. FMCN, with the assistance of CONAFOR, shall prepare the Completion Report for their respective part of the Project 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 (6) months after the Closing Date.

B. Financial Management; Financial Reports; Audits

1. FMCN and CONAFOR shall ensure and/or cause to be ensured that financial management systems are maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.
2. FMCN shall prepare and furnish to the World Bank, as part of each Project Report referred to in Section II.A.1 of this Schedule, interim unaudited financial reports of the Project (with exception of Part 2.1 of the Project) covering the pertinent semester, in form and substance satisfactory to the World Bank.

3. FMCN shall have its Financial Statements of the Project (with exception of Parts 1.1 and 2.1 of 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 (1) fiscal year of the Project. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

4. FMCN and CONAFOR shall have the Financial Statements of FCC and the Biodiversity Fund 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 (1) calendar year. The audited Financial Statements for each such period shall be furnished to the World Bank, upon the World Bank's request, not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. Procurement and Consultant Guidelines. All goods, works, non-consulting-services, and consultants' 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: 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”) in the case of goods, Minor Works, and non-consulting services, and Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“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 for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 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 Sections II
and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

3. **Special Provisions.** FMCN shall: (a) supply the SEPA with the information contained in the initial Procurement Plan within forty-five (45) days after the signing of this Agreement; and (b) update the Procurement Plan at least once a year, or as needed through the duration of the Project, to reflect the actual Project implementation needs and progress and supply the SEPA with the information contained in the updated Procurement Plan immediately thereafter.

**B. Particular Methods of Procurement of Goods, Works and Non-consulting Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding; (b) Shopping; and (c) Direct Contracting.

**C. Particular Methods of Procurement of Consultants' Service**

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) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants’ Qualification; (e) Single-source Selection of consulting firms; (f) Single-source procedures for the Selection of Individual Consultants; and (g) Selection of Individual Consultants.

**D. Review by the World Bank of Procurement Decisions**

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. FMCN may withdraw, or UMS may cause NAFIN (in respect of Part 2.1 of the Project) 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 Recipients (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 3 below.

2. UMS’s representative for purposes of taking any action required or permitted to be taken pursuant to this Section is NAFIN’s Director of International Financial Institutions (Director de Organismos Financieros Internacionales de NAFIN).

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) Capitalization of endowment funds</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>(a) For deposit into FCC under Part 1.1 of the Project</td>
<td>19,518,000</td>
<td>100%</td>
</tr>
<tr>
<td>(b) For deposit into the Biodiversity Fund under Part 2.1 of the Project</td>
<td>9,091,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, consultants’ services, non-consulting services and Training under Parts 1.3, 3, 4 and 5 of the Project</td>
<td>863,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Consultants’ services, non-consulting services, goods, Small Works, Training and Operating Costs for Sustainable Forestry Management Subprojects under Part 2.3 of the Project</td>
<td>7,494,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Operating Costs under Parts 1, 2, 4 and 5 of the Project</td>
<td>2,552,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>39,518,000</td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments:

(a) made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed USD 2,000,000 equivalent may be made for payments made prior to this date but on or after June 14, 2013 but in no case made more than twelve (12) months prior to the date of this Agreement, for Eligible Expenditures;

(b) under Category (1)(a) unless FMCN has provided evidence satisfactory to the World Bank showing that matching funds have been deposited into the FCC in a ratio 1:1 up to an amount of USD19,518,000 equivalent (as counter-part funds) and in accordance with the additional instructions referred to in Section IV.A.1(c) of this Schedule;

(c) under Category (1)(b) unless: (i) CONAFOR has provided evidence satisfactory to the World Bank showing that matching funds have been deposited into the Biodiversity Fund in a ratio 1:1 up to an amount of USD9,091,000 equivalent (as counter-part funds) and in accordance with the additional instructions referred to in Section IV.A.1(c) of this Schedule; and (ii) BANORTE has furnished evidence, satisfactory to the World Bank, indicating its commitment to comply with the Anti-corruption Guidelines in a manner satisfactory to the World Bank;

(d) under Category (4) unless: (i) a technical/fiduciary assessment of FGM and FONNOR has been carried out in a manner acceptable to the World Bank which shall certify, inter alia, that FGM and FONNOR have the capacity to exercise satisfactory control over the use of funds administrated by them; and (ii) FMCN has provided evidence satisfactory to the World Bank showing that (A) FONNOR has been duly established, (B) the FMCN-FGM Agreement has been duly executed, and (C) the FMCN-FONNOR Agreement has been duly executed.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 28, 2019.

Section V. Other Covenants

1. If any of the following events occur within ten (10) years of the date of this Agreement upon notice from the World Bank, FMCN and/or CONAFOR, as the case may be, shall refund to the World Bank, for deposit into the Grant Account, the amount of the Grant disbursed under Category (1)(a) and(b) of the table in
paragraph 3 of Section IV of this Schedule, in whole or in part, at the World Bank’s option:

(a) that the World Bank shall have determined, at any time, that: (i) the FMCN, CONAFOR and/or NAFIN shall have failed to perform any of their obligations under this Agreement; and (ii) FMCN, CONANP, CONAFOR and/or INECC shall have failed to perform any of their obligations under the Inter-institutional Agreement;

(b) the Operational Manual shall have been amended, suspended, terminated, waived or failed to be enforced in a manner which, in the opinion of the World Bank, would materially and adversely affect the implementation of the Project or the attainment of its objective;

(c) FMCN, FCC and/or the Biodiversity Fund shall have been dissolved or their operations shall have been suspended; and/or

(d) that any payment out of the investment income or capital disbursed under Category (1)(a) and(b) of the table in paragraph 3 of Section IV of this Schedule was used by the FMCN and/or CONAFOR for any expenditure not consistent with the purpose of the Project.
APPENDIX

Section I. Definitions

1. "Agro-ecosystem Subprojects" means any set of activities which meet the criteria set forth in the Operational Manual, and to be carried out by Beneficiaries for improving practices in agro-ecosystems with soil conversation techniques in degraded areas.

2. "Annual Operating Plans" means any of the annual plans prepared by each Protected Area and approved by the Technical Project Committee on an annual basis which list the biodiversity conservation and sustainable management activities which meet the criteria set forth in the Operational Manual, and to be financed out of the proceeds of the Grant.


4. "BANORTE" means Banco Mercantil del Norte, a Mexican commercial bank, serving as the Biodiversity Fund’s administrator.

5. "Beneficiary" means any civil society organization, Community, Ejido and or land user selected in accordance with the criteria and procedures set forth in the Operational Manual to carry out any given Subproject or to receive PES to carry out ecosystem services for improving forest and land management and/or reducing carbon emission.

6. "Biodiversity Fund" means the endowment fund established within the Forest Fund for purposes of providing long term financing for the payment of ecosystem services.

7. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

8. "Communities" means any population and land tenancy unit (comunidad), with its own legal personality, governed by Title III, Chapter V of UMS’s Agrarian Law (Ley Agraria), published in the Official Gazette on February 26, 1992 (as updated through June 22, 2011), or a legally established association of Communities, including those composed mostly of indigenous peoples represented by duly elected Community officials, which meets the criteria and other requirements set forth in the Operational Manual.

10. “CONANP” means Comisión Nacional de Áreas Naturales Protegidas, UMS’ national protected areas commission.

11. “Ejido” means any population and land tenancy unit, with its own legal personality, governed by Title III, Chapters I-IV of UMS’s Agrarian Law (Ley Agraria), published in the Official Gazette on February 26, 1992 (as updated through June 22, 2011), or a legally established association of Ejidos, which meets the criteria and other requirements set forth in the Operational Manual.

12. “Environmental Management and Social Framework” means Project’s framework acceptable to the World Bank dated April 1, 2013, which sets the procedures and measures acceptable to the World Bank, to be followed for the adequate environmental and social management of the Project, published on May 22, 2013, as said framework may be amended from time to time with the agreement of the World Bank.

13. “FCC” means the Fondo de Cuencas Costeras, an endowment fund created within FMCN pursuant to a decision of the FMCN’s board of directors dated September 11, 2013 for purposes of providing long term financing of integrated management of priority coastal watersheds.

14. “FGM” means the Fondo del Golfo de México, A.C., a legal entity created under the laws of the United Mexican States pursuant to a public deed dated January 15, 2013 for purposes of conserving nature and improving environmental quality in the region of the Gulf of Mexico.

15. “FMCN” means Fondo Mexicano para la Conservación de la Naturaleza, A.C., a legal entity created under the laws of the United Mexican States pursuant to a public deed dated January 26, 1994 for purposes of conserving nature and improving environmental quality in Mexico.

16. “FMCN-FGM Agreement” means the agreement referred to in Section I.B.2(a) of Schedule 2 to this Agreement, as the same may be amended from time to time with the agreement of the World Bank.

17. “FMCN-FONNOR Agreement” means the agreement referred to in Section I.B.2(b) of Schedule 2 to this Agreement, as the same may be amended from time to time with the agreement of the World Bank.
18. “FONNOR” means the FONNOR, A.C., a legal entity to be established under the laws of the United Mexican States for purposes of conserving nature and improving environmental quality in the region of the Gulf of California.

19. “Forest Fund” means the fund managed by BANORTE, as trustee \((\text{mandatario})\) of the Forest Fund pursuant to the provisions of the Forest Fund Agreement.

20. “Forest Fund Agreement” means the agreement \((\text{Contrato de Mandato})\) dated July 10, 2013 between CONAFOR and BANORTE whereby BANORTE has agreed to administer the funds deposited within the Biodiversity Fund, as said agreement may be amended from time to time with the agreement of the World Bank.

21. “Indigenous Peoples Planning Framework” means the Project’s framework acceptable to the World Bank dated April 21, 2013 and published on May 22, 2013, to address indigenous peoples aspects during the implementation of the Project (except for Part 2.1 of the Project) and which includes, inter alia, the guidelines and procedures for the preparation and implementation of indigenous peoples development plans, as said framework may be amended from time to time with the agreement of the World Bank.

22. “Indigenous Peoples Planning Framework For Part 2.1 of the Project” means the framework acceptable to the World Bank dated November 29, 2011 and published on May 22, 2013, to address indigenous peoples aspects during the implementation of Part 2.1 of the Project and which includes inter alia, the guidelines and procedures for the preparation and implementation of indigenous peoples development plans, as said framework may be amended from time to time with the agreement of the World Bank.


24. “Inter-institutional Agreement” means the agreement referred to in Section I.B.1 of Schedule 2 to this Agreement, as the same may be amended from time to time with the agreement of the World Bank.

25. “Mandato Agreement” means the agreement referred to in Section I.D.1 of the Schedule 2 of this Agreement.

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

27. “Official Gazette” means Diario Oficial de la Federación, UMS’ official gazette.
28. “Operating Costs” means the reasonable incremental expenditures incurred in connection with the operation of FMCN (and FGM and FONNOR) including, \textit{inter alia:} salaries, rental, travel, room, board and \textit{per diem} expenditures, maintenance of facilities, consumable materials and supplies, insurance, utilities and incremental costs of staff of CONANP and FMCN which would have not been incurred absent the Project.


30. “PES” means the payment made by CONAFOR to a Beneficiary through the Biodiversity Fund for the provision of ecosystem services for improving forest and land management and/or reducing carbon emissions.

31. “Procurement Plan” means the plan dated September 23, 2013 and referred to in Section III.A.1(b) of Schedule 2 to this Agreement.

32. “Project Indicators” means the indicators to measure the performance of the Project detailed in the Operational Manual.

33. “Process Framework” means Project’s framework acceptable to the World Bank dated April 1, 2013 and published on May 22, 2013, which defines the restrictions on access to natural resources in the selected Protected Areas, identifies and quantifies the impacts of those restrictions, proposes specific measures to compensate for the loss of assets and associated income (including guidelines for the preparation and implementation of plans of actions setting forth the specific measures to be undertaken to assist the displaced persons and the arrangements for their implementation), and puts in place grievance resolution mechanisms in order to resolve the issues that may arise during the implementation of the Project, as said framework may be amended from time to time with the agreement of the World Bank.

34. “Protected Areas” means the following national areas with protection due to their recognized natural, ecological and cultural values under CONANP’s administration and any other area or areas agreed between the Recipients and the World Bank: (i) Bosque Mesőfilo; (ii) Sistema Arrecifal Lobos-Tuxpan; (iii) Pico de Orizaba; (iv) Cofre de Perote; (v) Sistema Arrecifal Veracruzano; (vi) Los Tuxtlas; (vii) Arrecifes de Los Tuxtlas; (viii) Pantanos de Centla; and (ix) Cañón de Usumacinta.


38. “Small Works” means any small civil work activity with no negative environmental and/or social impact aimed to support the achievement of the objectives of the Project; all such activities to be selected in accordance with the terms and conditions set forth in the Operational Manual.

39. “Subproject” means any Agro-ecosystem Subproject and/or Sustainable Management Subproject.

40. “Subproject Agreement” means the agreement referred to in Section I.B.5(a) of Schedule 2 to this Agreement.

41. “Sustainable Forest Management Subproject” means any set of activities which meet the criteria set forth in the Operational Manual, and to be carried out by the Beneficiaries for improving sustainable forest management practices.

42. “Technical Project Committee” means the committee referred to in Section I.A.1 of Schedule 2 to this Agreement.

43. “Training” means reasonable expenditures (other than those for consultants’ services incurred for the carrying out of training activities under the Project) including (a) fees of consultants employed as trainers; (b) reasonable travel, room, board and per diem expenditures incurred by the trainers in connection with their training; (b) course fees charged by academic institutions providing training; (d) training facility rentals; and (e) training material, preparation, acquisition, reproduction and distribution expenses.


Section II. Modifications to the Standard Conditions

References to the term “Recipient” in the Standard Conditions shall mean one and/or both of the Recipients.