Sr. Antonio Molpeceres  
Representante Residente  
Programa de las Naciones Unidas para el Desarrollo (PNUD)  
Montes Urales 440, Col. Lomas de Chapultepec,  
Del. Miguel Hidalgo, C.P.11000 México City  

Re: United Mexican States: Grant for Forest Carbon Partnership Facility  
REDD+ Readiness Preparation Support  
Grant TF0A4502

Dear Sir/Madam:

I am writing on behalf of the International Bank for Reconstruction and Development ("World Bank") to indicate the Bank's agreement, acting as trustee of the Readiness Fund of the Forest Carbon Partnership Facility ("FCPF"), to make a grant in an amount not exceeding one million five hundred thousand Dollars of the United States of America (US$1,500,000) ("Grant") to United Nations Development Programme (UNDP) ("Recipient") for the benefit of the United Mexican States ("Member Country").

In response to the request for financial assistance made on behalf of the Member Country and the decision of the Participants Committee of the FCPF through its Resolution PC/19/2015/2, the World Bank has agreed to extend a grant in the amount of five million Dollars of the United States of America (US$5,000,000) for the benefit of the Member Country, as follows: (a) one million five hundred thousand Dollars of the United States of America (US$1,500,000) ("Grant") to UNDP on the terms and conditions set forth in the Annex to this Letter Agreement; and (b) three million five hundred thousand Dollars of the United States of America (US$ 3,500,000) on the terms and conditions set forth in an agreement between the Member Country and the Bank, acting as trustee of the FCPF ("Second Readiness Grant Agreement"), to assist in the financing of the Readiness Preparation Activities described in the Annex to this Letter Agreement.

Without limiting the generality of the foregoing, these terms and conditions include those of the Financial Management Framework Agreement between the World Bank and the United Nations, dated March 10, 2006 ("Financial Management Framework Agreement"), which are incorporated in this Letter Agreement to form a part hereof as if they were recited at length herein. The Recipient, by countersigning this Letter Agreement, acknowledges that it has received a copy of the Financial Management Framework Agreement and, if the Recipient was not an original signatory thereof, agrees that it is bound by the terms of the Financial Management Framework Agreement as if the Recipient had been an original party thereto. The Recipient represents, by confirming its agreement below, that (i) it is authorized to contract and withdraw the Grant for the said purposes and on the said terms and conditions, and (ii) the references in sub-paragraphs (a) and (d) of paragraph 5 of the Annex to this Letter Agreement to the Recipient's financial regulations and rules are complete and accurate, and the Recipient makes this representation knowing that the World Bank shall rely on it for purposes of deciding to make the Grant.

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donors to said trust fund. 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. Accordingly, the World Bank shall not have any liability whatsoever to the Recipient or to any third parties in respect of any expenditures or liabilities incurred in connection with the Letter Agreement which exceed the amount made available to the World Bank for the purposes of the Grant. In addition, the Recipient has informed the World Bank that it will not seek retroactive financing.

Please note that it is the World Bank's policy to make publicly available this Letter Agreement and any information related thereto, after this Letter Agreement has become effective and the Recipient has given its consent to such disclosure. The Recipient, by countersigning this Letter Agreement, confirms its consent to such disclosure.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter Agreement; provided however, that the offer of this Letter Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Letter Agreement within ninety (90) days after the date of signature of this Letter Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose. Upon receipt by the World Bank of the countersigned copy of this Letter Agreement, this Letter Agreement shall become effective on the date on which the World Bank notifies in writing the Recipient, upon:

(a) declaration of effectiveness of the Second Readiness Grant Agreement between the Member Country and the World Bank; and

(b) receipt by the World Bank of a fully executed copy of the PRODOC between the Comisión Nacional Forestal (CONAFOR or Executing Entity) and UNDP for the coordination of the implementation of the Readiness Preparation Activities.

Very truly yours,
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By Gerardo M. Corrochano
Director
Colombia and México
Latin America and the Caribbean Region

AGREED:
UNITED NATIONS DEVELOPMENT PROGRAMME
By___________
Name Antonio Malpecces
Title Resident Representative
Date: 28/Aug/2017
ANNEX

Purposes, Terms, and Conditions of the Grant

1. Definitions

Unless the context requires otherwise, the capitalized terms used in this Letter Agreement have the meanings ascribed to them in the Charter Establishing the Forest Carbon Partnership Facility ("Charter"), or in this Letter Agreement. For the purposes of this Letter Agreement, the following terms have the meaning given to them as follows:

(a) “Capacity Building” means the reasonable costs for purposes of training under Part 2 (b) (iii) of 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.

(b) “CONAFOR” or “Executing Entity” means the Comisión Nacional Forestal, the Member Country’s National Forest Commission established to promote sustainable forest development through public policy actions and implementation of programs aimed to enhance forest protection, production and productivity, and contribute to economic growth and social development, pursuant to the Member Country’s Decree dated March 23, 2001, or any successor thereto.

(c) “ENAREDD+” means Estrategia Nacional para REDD+, the United Mexican States’s National Strategy on REDD+.

(d) “ENAREDD+ Consultation Plan” means the document prepared by the 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 Executing Entity and the World Bank.

(e) “ESMF” means the environmental and social management framework that will provide guidance regarding the management of environmental (including pest management and measures for chance findings of physical cultural property) and social issues during the implementation of any future World Bank financed REDD+ investments (including investments under the Carbon Fund of the FCPF).

(f) “Incremental Operating Costs” means the reasonable incremental operating costs incurred by the Recipient for purposes of the implementation, management, monitoring and evaluation of Part 2 (b) (iii) of the Readiness Preparation Activities, on account of office supplies and consumables, utilities, bank charges, communications, mass media and printing services, vehicle purchase, operation, maintenance and insurance, office space rental, building and equipment maintenance, domestic travel, lodging and subsistence allowances, salaries of the Recipient’s staff working in the implementation of the
Readiness Preparation Activities under its responsibility, and any other reasonable expenditures as shall be agreed by the World Bank.

(g) "Indigenous Peoples Planning Framework" means the framework to be included as part of the ESMF, 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).

(h) "PRODOC" means Documento de Proyecto, the arrangement between the CONAFOR and the Recipient, acceptable to the World Bank, for purposes of the overall coordination and implementation of Part 2 (b)(iii) of the Readiness Preparation Activities.

(i) "Process Framework" means the framework to be 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).

(j) "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.

(k) "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.

(l) "Resettlement Policy Framework" means the framework to be included as part of the ESMF, outlining general implementation procedures, mitigation measures and monitoring procedures in case of Involuntary Resettlement as a result of future World Bank investments related to REDD+ (including under the Carbon Fund of the FCPF), including the procedures for preparation and implementation of site-specific resettlement action plans, when applicable.

(m) "Second Readiness Grant Agreement" means the agreement between the Member Country and the World Bank for the implementation of the Readiness Preparation Activities (but excluding Part 2 (b)(iii)).

(n) "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.

(o) "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 Executing Entity
and the World Bank.

(p) “Signature Date” means the latest of the two dates on which the Recipient and the World
Bank signed this Letter Agreement.

(q) “World Bank’s Safeguards Policies” means the operational policies and procedures of the
World Bank (as the same may be amended from time to time by the World Bank) set forth
in the World Bank’s Operational Manual and identified as Environmental Assessment
(OP/BP 4.01), Natural Habitats (OP/BP 4.04), Forests (OP/BP 4.36), Pest Management
(OP4.09), Indigenous Peoples (OP/BP 4.10), Physical Cultural Resources (OP/BP 4.11),
Involuntary Resettlement (OP/BP 4.12) and Safety of Dams (OP/BP 4.37), as said manual
is published under www.worldbank.org/opmanual.

2. Objectives and Description

The objective of the Readiness Preparation Activities is to strengthen the REDD+ readiness process in
Mexico. The Readiness Preparation Activities consists of the following parts:

Part 1: National Readiness Management Arrangements and Stakeholder Consultation and
Participation

(a) Strengthening of the capacity of the Executing Entity, through the provision of support to,
*inter alia:* (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) Provision of support to, *inter alia:* (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; (iv) conduct the
systematization and reporting of consultations and workshops results; and (v) strengthen
the technical and administrative capacity of relevant stakeholders listed in the Operational
Manual on REDD+ through the carrying out of capacity building activities.

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

(a) Provision of technical assistance and financing of Incremental Operating Costs to: (i)
identify barriers and alternatives to inter-sectoral 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 support to, *inter alia:* (i) identify critical issues related to the implementation
of ENAREDD+, identified as part of the SESA; (ii) develop scenarios to model the impacts
of strategic options for REDD+; and (iii) align ENAREDD+ with the Executing Entity's
sustainable forest management agenda through, *inter alia*, the establishment of a specialized technical unit on sustainable forest management within the Executing Entity, including the provision of relevant technical assistance to promote sustainable forest management under an integrated landscape approach, strengthen community forest enterprises, and foster competitiveness of the forest sector.

(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 Incremental Operating Costs.

(d) Strengthening of the capacity of the Executing Entity, through the provision of technical assistance and financing of Incremental 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, a Resettlement Policy Framework and a Process Framework.

Part 3: National Forest Monitoring System

Provision of support to the Executing Entity to, *inter alia*: (a) further operationalize the National Forest Monitoring System, including the establishment of a specialized technical unit on monitoring, reporting and verification within the Executing Entity and the provision of relevant technical assistance; and (b) collect field data of sample plots through the National Forest and Soils Inventory to increase the accuracy of carbon stock and greenhouse gas emission estimates.

3. **Implementation Generally and Safeguards**

3.1. The Recipient shall: (a) carry out Part 2 (b) (iii) of the Readiness Preparation Activities with due diligence and efficiency, in accordance with the provisions of this Annex, the PRODOC and 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 and as of July 1, 2016; (b) promptly provide the facilities, services and other resources required for that purpose; (c) furnish all information covering Part 2 (b) (iii) of the Readiness Preparation Activities and the use of the proceeds of the Grant as the World Bank and CONAFOR shall reasonably request; (d) from time to time exchange views with the World Bank and CONAFOR's representatives on the progress and results of said Part of the Readiness Preparation Activities; (e) use its reasonable best efforts with the Member Country's authorities to enable the World Bank to visit the Member Country’s territory for purposes related to the Grant; and (f) cause all goods and services financed out of the proceeds of the Grant to be used exclusively for the purposes of the Grant. Without limitation on the foregoing, the Recipient shall, if the World Bank shall so request, prepare and furnish to the World Bank promptly upon completion of Part 2 (b) (iii) of the Readiness Preparation Activities a report, in form and substance satisfactory to the World Bank, on the results and impact of said Readiness Preparation Activities.

3.2. In case of any inconsistency between the terms of this Agreement and these of the PRODOC, the terms of this Letter Agreement shall prevail.

3.2. The Recipient shall ensure that the terms of reference for any technical assistance provided under Part 2 (b) (iii) of the Readiness Preparation Activities and frameworks prepared on the basis of the SESA Workplan under said Parts of the Readiness Preparation Activities shall be satisfactory to the Bank, and to that end, such terms of reference shall require that the advice conveyed through such technical assistance be consistent with the requirements of the World Bank’s Safeguards Policies and Procedures.
4. **Procurement**

4.1. All goods, non-consulting services and consulting services required for the implementation of Part 2 (b) (iii) of the Readiness Preparation Activities 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 the “World Bank Procurement Regulations for Borrowers under Investment Project Financing” dated July 1, 2016 (“Procurement Regulations”), and the provisions of the Recipient’s procurement plan for the Readiness Preparation Activities (“Procurement Plan”) dated May 4, 2017 provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the World Bank.

4.2. The Recipient shall ensure that all imported goods to be financed out of the proceeds of the Grant shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and that any indemnity for such insurance is payable in a freely usable currency to replace or repair such goods. The Recipient shall ensure that any facilities relevant to Part 2 (b) (iii) of the Readiness Preparation Activities are at all times operated and maintained in accordance with appropriate practices and that any repairs or renewals of such facilities are promptly made as needed.

5. **Withdrawal of Grant Proceeds**

5.1. The amount of the Grant shall be credited to an account opened by the World Bank on its books in the name of the Recipient (“Grant Account”), and may be withdrawn therefrom by the Recipient in accordance with the provisions of this paragraph 4, for expenditures in respect of the reasonable cost of goods and services required for Part 2 (b) (iii) of the Readiness Preparation Activities and to be financed out of the proceeds of the Grant (sometimes hereinafter referred to as “eligible expenditures”). Withdrawals from the Grant Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Letter Agreement.

5.2. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category, and the percentage of expenditures for items so to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in US$)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, consulting services,</td>
<td>1,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>Capacity Building and Incremental Operating Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>under Part 2(b)(iii) of the Readiness Preparation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,500,000</td>
<td></td>
</tr>
</tbody>
</table>
5.3. Notwithstanding the provisions of paragraph 5.2 above:

(a) No withdrawals shall be made from the Grant Account: (i) for payments made prior to the Signature Date; or (ii) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the World Bank's knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations;

(b) The Recipient may withdraw amounts of the Grant only to the extent that such amounts are available to the World Bank from the donors under the above mentioned FCPF trust fund for the purposes of the Grant; and

(c) No withdrawals shall be made from the Grant Account after April 30, 2019 or such later date that the World Bank shall establish by notice to the Recipient (“Closing Date”). However, withdrawals may be made after the Closing Date for expenditures incurred prior to the Closing Date if the corresponding withdrawal application is received by the World Bank within four months after the Closing Date, after which time any amount of the Grant remaining unwithdrawn from the Grant Account shall be canceled.

5.4. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to the World Bank a written application for withdrawal of such amount in the form specified by the World Bank. Withdrawal applications shall be: (a) signed on behalf of the Recipient by the Recipient's Resident Representative in the Member Country or such other person as he or she shall have authorized in writing; and (b) accompanied by such evidence in support of the application as the World Bank shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy the World Bank that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of Part 2 (b) (iii) of the Readiness Preparation Activities. The World Bank shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

5.5. Withdrawals from the Grant Account shall be made on the basis of the interim unaudited financial reports referred to in paragraph (c) of Section 6 and under such other terms and conditions as the World Bank shall specify by notice to the Recipient contained in the Disbursement Letter addressed or to be addressed by the World Bank to the Recipient for purposes of the Grant.

5.6. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. The World Bank, at the Recipient's request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by the World Bank.

6. **Accounts and Audits**

(a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, adequate to reflect the transactions related to Part 2(b) (iii) of the Readiness Preparation Activities, in accordance with the requirements of the document UNDP Financial Regulations and Rules dated January 1, 2012 (hereinafter referred to as the Financial Regulations).
(b) The Recipient shall maintain in a separate account in its records ("Grant Control Account") a complete, true and faithful record of all the advances from the proceeds of the Grant and of all the expenditures paid from such advances.

(c) The Recipient shall prepare, on a calendar semester basis, interim unaudited financial reports, in accordance with accounting standards established pursuant to the Financial Regulations and in the format agreed with the World Bank, adequate to reflect the operations, resources and expenditures related to Part 2(b)(iii) of the Readiness Preparation Activities. The first said interim unaudited financial reports shall be furnished to the World Bank no later than forty five (45) days after the end of the first calendar semester after the effectiveness of this Letter Agreement, and shall cover the period from the incurrence of the first expenditure under the Grant through the end of such first calendar semester; thereafter, each interim unaudited financial report shall be furnished to the World Bank not later than forty five (45) days after each subsequent calendar semester, and shall cover such calendar semester.

(d) The Recipient shall ensure that the audit of Part 2(b)(iii) of the Readiness Preparation Activities is governed by: (i) the Financial Regulations and (ii) the Financial Management Framework Agreement.

(e) The Recipient shall retain, until at least one year after the World Bank has received the final interim unaudited financial report referred to in paragraph (b) of this Section covering the year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing all expenditures in respect of which withdrawals from the Grant Account were made.

7. **Suspension and Cancellation**

7.1. The Recipient may, by notice to the World Bank, cancel any unwithdrawn amount of the Grant.

7.2. The World Bank may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) the Recipient has failed to comply with any of its obligations herein specified; or (b) the right of the Recipient or the Member Country, or any other entity to which the Bank has made a loan with the guarantee of the Member Country, to make withdrawals under any loan or any grant agreement with the World Bank has been suspended, or (c) if, by notice sent jointly to the United Nations and the Recipient pursuant to paragraph (iv) of Section 9 of the Financial Management Framework Agreement, the World Bank confirms that it reasonably believes the actions taken previously in accordance with said Section 9 have not been sufficient to fulfill its fiduciary obligation to ensure that the proceeds of the Grant were used for eligible expenditures; or (d) if, by notice sent jointly to the United Nations and the Recipient pursuant to sub-paragraph (a) of paragraph (iii) of Section 10 of the Financial Management Framework Agreement, the World Bank confirms that alternative financial management arrangements mutually acceptable to the World Bank and the Recipient were not reached within the period stipulated therein; or (e) if the World Bank determines at any time that a reference in sub-paragraph (a) or (d) of paragraph 5 of the Annex to this Letter Agreement to the Recipient’s financial regulations and rules is incomplete or inaccurate in any material respect.

7.3. The Bank may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account: (a) at any time after the right of the Recipient to make withdrawals from the Grant Account has been suspended pursuant to the provisions of paragraph 7.2 above; (b) if the Recipient has failed to take action, satisfactory to the World Bank within six months
after the effective date of this Agreement, to carry out Part 2(b) (iii) of the Readiness Preparation Activities under its responsibility; and (c) if the Member Country has requested the cancellation of the unwithdrawn amount of the Grant TF0A4501.

8. **Other Undertakings:**

No later than the Closing Date, the Recipient shall transfer to CONAFOR the ownership and manufactures warranties on the vehicles and computer’s equipment procured with Grant’s proceeds.