Loan Agreement

(Forests and Climate Change Project)

between

UNITED MEXICAN STATES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 25, 2012
LOAN AGREEMENT

Agreement dated May 28, 2013 between United Mexican States ("Borrower"), as represented by its Ministry of Finance and Public Credit and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank").

WHEREAS (A) by an agreement (the SCF FIP Loan Agreement) of even date herewith entered into between the Borrower and the World Bank, acting not in its individual capacity but solely in its capacity as implementing entity of the Strategic Climate Fund, the World Bank has agreed to make a loan to the Borrower in the amount of sixteen million three hundred forty thousand Dollars ($16,340,000), on the terms and conditions set forth in the SCF FIP Loan Agreement;

(B) by an agreement (the SCF FIP Trust Fund Grant Agreement) of even date herewith entered into between the United Mexican States acting as the Recipient, NAFIN and CONAFOR, and the World Bank, acting not in its individual capacity but solely in its capacity as implementing entity of the Strategic Climate Fund, the World Bank has agreed to make a grant to the Recipient in the amount of twenty five million six hundred sixty thousand Dollars ($25,660,000), on the terms and conditions set forth in the SCF FIP Trust Fund Grant Agreement;

(C) by an agreement (the Project Agreement) of even date herewith entered into between the Bank and CONAFOR, CONAFOR has agreed to implement the Project and undertake the obligations set forth in the Project Agreement; and

(D) the Borrower has informed the Bank that the proceeds of the Loan (as set forth in the table in Section IV.A.3 of Schedule 2 to this Agreement and for purposes of supporting the Project), shall be used in conformity with the requirements of the Borrower's income, budgetary and public debt laws and the terms of this Agreement.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in 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 General Conditions, or in the Appendix to this Agreement.
ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of three hundred fifty million Dollars ($350,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("IBRD Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. Unless the Borrower's representative designated in Section 6.01 of this Agreement otherwise informs the Bank, the Borrower's Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the Director/a de Organismos Financieros Internacionales of NAFIN or any person or persons whom such representative shall designate in writing.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

2.05. The Payment Dates are May 15 and November 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.

2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the
Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall cause the Project to be carried out by CONAFOR in accordance with the provisions of Article V of the General Conditions and the Project Agreement.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement and the provisions of the Project Agreement.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Events of Suspension consist of the following:

(a) The CONAFOR’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
The Mexican Forest Legal Framework has been amended, suspended, abrogated, repealed, waived or not enforced so as to affect materially and adversely the execution of the Project.

NAFIN shall have failed to comply its obligations under the Mandato Agreement for the IBRD Loan.

4.02. The Additional Events of Acceleration consist of, namely, that any of the events specified in Section 4.01 of this Agreement occur and continues for a period of sixty days after notice of the pertinent event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Mandato Agreement for the IBRD Loan has been duly signed by the parties thereto;

(b) The SCF FIP Loan Agreement has been signed and delivered by all the parties to such agreement, and all conditions precedent to its effectiveness (other than the fulfillment of effectiveness of this Agreement or of the SCF FIP Grant Agreement) have been fulfilled;

(c) The SCF FIP Trust Fund Grant Agreement has been signed and delivered by all the parties to such agreement, and all conditions precedent to its effectiveness (other than the fulfillment of effectiveness of this Agreement or of the SCF FIP Loan Agreement) have been fulfilled; and

(d) The Project Agreement has been signed and delivered by all the parties to such agreement.

5.02. The Additional Legal Matters consist of the following:

(a) the Borrower, through a legal opinion satisfactory to the Bank, issued by Borrower counsel acceptable to the Bank, indicate that the Mandato Agreement for the IBRD Loan, has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with the terms of the Mandato Agreement for the IBRD Loan.

(b) NAFIN, through a legal opinion satisfactory to the Bank, issued by NAFIN counsel acceptable to the Bank, indicate that the Mandato Agreement for the IBRD Loan has been duly authorized or ratified by, and executed and delivered on behalf of, NAFIN and is legally binding
upon NAFIN in accordance with the terms of the *Mandato* Agreement for the IBRD Loan.

(c) CONAFOR, through a legal opinion satisfactory to the Bank, issued by CONAFOR counsel acceptable to the Bank, indicate that: (i) the *Mandato* Agreement for the IBRD Loan has been duly authorized or ratified by, and executed and delivered on behalf of, CONAFOR and is legally binding upon CONAFOR in accordance with the terms of the *Mandato* Agreement for the IBRD Loan, and (ii) the Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, CONAFOR and is legally binding upon CONAFOR in accordance with its terms.

5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank’s approval of the Loan which expire on July 31, 2013.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. Except as set forth in Section 2.02 of this Agreement, the Borrower’s Representative is the *Titular de la Unidad de Crédito Público* of SHCP. The authorized representative to make requests for Conversions or for an IBRD Hedge (as defined in the Hedging Guidelines) on behalf of the Borrower shall be (a) the *Titular de la Unidad de Crédito Público* of SHCP or any person or persons whom he or she shall designate in writing for this particular purpose, or (b) NAFIN’s Director of International Financial Institutions (*Director de Organismos Financieros internacionales*).

6.02. The Borrower’s Address is:

   Secretaría de Hacienda y Crédito Público
   Unidad de Asuntos Internacionales de Hacienda
   Insurgentes Sur 1971, Torre III, Piso 3
   Colonia Guadalupe Inn, 0 020
   Distrito Federal

6.03. The Bank’s Address is:

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

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

AGREED at Mexico City, United Mexican States, as of the day and year first above written.

UNITED MEXICAN STATES
By

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
By

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to support rural communities in the territory of the Borrower to sustainably manage their forests, build social organization, and generate additional income from forest products and services including from REDD+.

The Project consists of the following parts:

Part 1: Policy Design and Institutional Strengthening

1. Provision of technical assistance and financing of Operating Costs to: (i) strengthen CONAFOR's monitoring and evaluation systems by revamping databases, strengthening CONAFOR's remote sensing and geographic information capacities, and strengthening CONAFOR's technical capacity to better measure the outcomes of CONAFOR's investments in the field; (ii) design and pilot a comprehensive REDD+ monitoring, reporting and verification system by: (A) developing tools to monitor the environmental, social and economic impacts of REDD+ Early Action Areas Subprojects; (B) analyzing community-based monitoring techniques, and (C) designing an impact evaluation strategy, all for the activities to be carried out under Part 3.3 of the Project; and (iii) monitor results and carry out strategic evaluations of the Forest Investment Plan.

2. Provision of technical assistance and financing of Operating Costs to carry out analytical work and workshops to improve public policies and public programs on forest management and forest conservation issues by: (i) carrying out studies and workshops to draw lessons from ongoing environmental services and community forestry programs in the Borrower's territory, and propose adjustments to CONAFOR Rules to achieve, inter alia, greater integration and synergies amongst said environmental services and community forestry programs; (ii) carrying out studies related to policies and programs related to forestry, agriculture, livestock, and other economic activities in rural landscapes to achieve, inter alia, greater integration and synergies amongst said policies and programs in rural landscapes; (iii) carrying out studies and workshops to design innovative REDD+ institutional arrangements to pilot in REDD+ Early Action Areas under Part 3 of the Project; (iv) carrying out workshops, communication and outreach activities to facilitate the successful implementation of the Project (including on social and environmental safeguards issues); (v) disseminating information and carrying out consultations with indigenous peoples and other forest communities on REDD+, sustainable forest management, and related issues; (vi) carrying out workshops for indigenous peoples, local communities and other stakeholders involved in the management of forest landscapes in REDD+ Early Action Areas under Part 3 of the Project; and (vii) carrying out local and international learning activities, including South-South learning
initiatives, and disseminating and exchanging lessons and experiences on REDD+ and on the implementation of the Forest Investment Plan.

3. Provision of goods and technical assistance (including training) and financing of Operating Costs to: (i) modernize CONAFOR’s administration and advisory capacity, and promote the sharing of good practices and technologies; (ii) support the overall management of the Project, including the carrying out of coordination, reporting, fiduciary and safeguards related activities; and (iii) foster cross-sector coordination between CONAFOR and other agencies of the Borrower involved in rural development at the federal level (such as, inter alia, SEMARNAT and SAGARPA) by creating joint databases with SAGARPA and SEMARNAT, and streamlining the administrative framework for community-based forest management.

4. Provision of technical assistance (including training) and financing of Operating Costs to: (i) train a roster (padrón) of qualified professionals to be hired by Communities and/or Ejidos (following the procedures set forth in Section III of the Schedule to the Project Agreement) to advise said Communities and/or Ejidos in the preparation and implementation of the activities under Parts 2 and 3.3 of the Project; and (ii) design and implement a service provider quality accreditation and certification scheme for the qualified professionals referred in Part 1.4.(i) of the Project.

Part 2: Consolidation of CONAFOR Priority Community-Based Programs at the National Level

Provision of support to Communities and/or Ejidos to help them combine sustainable forest management with socio-economic development, enhance the contribution of forests to climate change mitigation and adaptation, and generate additional income opportunities for Communities and/or Ejidos, making sustainable management more economically attractive, through:

Silvicultura Comunitaria (Programa de Desarrollo Forestal Comunitario)
(i) the carrying out of activities to promote, strengthen, and consolidate community institutions and local development processes for the collective and sustainable management of forest resources including, inter alia: (a) the carrying out of participatory rural appraisals; (b) the elaboration of land-use zoning plans (ordenamientos territoriales comunitarios); (c) the development and strengthening of community statutes to regulate the use of collective forest resources; (d) the carrying out of community-to-community seminars and other knowledge sharing activities among Communities and/or Ejidos at different levels of organization; (e) the provision of support (in a manner acceptable to the Bank) to participatory community surveillance committees to ensure compliance with management plans, community statutes, and social and environmental safeguards; and (f) the carrying out of workshops and training courses for
Community and/or Ejido members and staff of community forestry enterprises on technical aspects of forest management, silviculture, environmental sustainability, business administration, and transformation and marketing of forest products and services.

Prodefor (Programa de Desarrollo Forestal)
(ii) the carrying out of activities to support forest Communities and/or Ejidos strengthen their capacities to manage productive forests sustainably including, 
inter alia: (a) studies to prepare environmental impact assessments and forest management plans based on official regulations needed to obtain the Borrower’s permits for extraction of timber and non-timber forest products; (b) silvicultural activities aimed at ensuring forest regeneration and improvement of forest productivity and carbon sequestration; (c) activities to improve and modernize forestry technologies used by community forestry enterprises to increase their efficiency, competitiveness and add value to their timber and non-timber products; and (d) technical assistance activities to assess compliance with environmental and social safeguards, and to conduct evaluations to certify the environmental and social sustainability of forestry interventions based on national and international standards.

Cadenas Productivas (Programa de Integración de Cadenas Productivas)
(iii) the carrying out of activities to promote and strengthen forest value chains established by community forest enterprises to add value to their timber and non-timber forest products, expand access to markets, and improve competitiveness including, inter alia: (a) legal registration of community forest enterprises and inter-community value chains; (b) studies to prepare strategic business plans, process engineering, and investment feasibility assessments; (c) purchasing of processing equipment to integrate community forest enterprises into value chains; (d) purchasing of office equipment for community forestry enterprises; and (e) activities to improve marketing of timber and non-timber forest products and services, and to strengthen the growth of community forestry enterprises.

PSAB (Programa de Servicios Ambientales del Bosque)
(iv) the provision of payments to Communities and/or Ejidos in exchange for the provision of environmental services which benefit people other than the land users in the PSAB Areas, which services include, inter alia: (a) services generated by forest ecosystems in the provision of water and the prevention of disasters; (b) services generated by forest ecosystems in the conservation of biodiversity; and (c) services generated by forest ecosystems in the capture of carbon.

Programas Especiales
(v) the provision of technical assistance and payments to Communities and/or Ejidos for: (a) the carrying out of activities to restore ecosystems in degraded areas including, inter alia, reforestation, soil conservation, agroforestry, and
forest fire prevention activities; and (b) the carrying out of activities to restore and conserve ecosystems in coastal watersheds and other areas with high deforestation rates including, *inter alia*, forest conservation, sustainable forest management, reforestation, agroforestry, and forest fire prevention activities.

**Part 3: Innovation for REDD+ in REDD+ Early Action Areas**

1. Provision of technical assistance and financing of Operating Costs to design innovative REDD+ approaches to be piloted in REDD+ Early Action Areas under Parts 3.2 and 3.3 of the Project, including, *inter alia*: (i) the alignment of forestry, agriculture and livestock policies and incentive programs managed by CONAFOR and SAGAFPA and improvement of the overall carbon balance in rural landscapes in the Borrower’s territory; (ii) the tailoring or customization of CONAFOR’s forestry incentive programs and adjustment of the eligibility criteria and procedures of said programs to promote REDD+ practices at the community and landscape level; (iii) the supporting of the emergence of new local governance agents such as local technical agents (ATLs, as defined in the Appendix to this Agreement) and local development agents (ADLs, as defined in the Appendix to this Agreement) allowing for a broader spatial integration at the municipal, watershed or landscape level; and (iv) the development of specific operational rules for the implementation of Part 3.3 of the Project.

2. Provision of technical assistance (including training), goods and financing of Operating Costs to: (i) strengthen the capacities of ADLs and ATLs, (ii) assist Communities and/or *Ejidos* and other local stakeholders in the REDD+ Early Action Areas to identify and implement innovative REDD+ Early Action Subprojects; (iii) establish coordination mechanisms to effectively develop and implement participatory regional land-use plans and identify landscape level strategies for REDD+; (iv) enable integrated cross-sector action in support of sustainable economic activities in forest landscapes; (v) assist Communities and/or *Ejidos* to implement REDD+ Early Action Subprojects; (vi) coordinate efforts for monitoring and evaluation of REDD+ activities; and (vii) identify and disseminate lessons learned in REDD+ Early Action Areas for potential future scaling up of REDD+ landscape initiatives to other regions in the Borrower’s territory.

3. Provision of financing to Communities and/or *Ejidos* to carry out REDD+ Early Action Areas Subprojects.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Mandato Agreement for the IBRD Loan

1. The Borrower, through SHCP, shall enter into a contract (Mandato Agreement for the IBRD Loan) with NAFIN and CONAFOR, satisfactory to the Bank, whereby:

   (a) NAFIN agrees to act as financial agent of the Borrower with regard to the Loan, meaning that, inter alia, NAFIN agrees to represent the Borrower vis-à-vis the Bank for purposes of submitting Loan withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Borrower of Loan proceeds and agrees to maintain and operate the designated account 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 the Project;

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

   (d) the Borrower 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 for the IBRD Loan, or temporarily suspend its effects, or, if applicable, require the restitution of funds transferred to NAFIN under the Mandato Agreement for the IBRD Loan; and

   (e) 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 Section and in the Project Agreement, respectively.

2. The Borrower shall exercise its rights and carry out its obligations under the Mandato Agreement for the IBRD Loan in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank may otherwise agree, the Borrower shall not amend,
terminate, waive or fail to enforce any provision of the Mandato Agreement for the IBRD Loan. In case of any conflict between the terms of the Mandato Agreement for the IBRD Loan and those of this Agreement, the terms of this Agreement shall prevail.

B. Anti-Corruption

The Borrower shall ensure, and shall cause CONAFOR to ensure, that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines. Without limitation to the foregoing, the Borrower shall cause CONAFOR to cause NAFIN, as trustee (mandataria) of the Forest Fund to agree by not later than December 16, 2011, to comply with the Anti-Corruption Guidelines.

C. Safeguards

1. The Borrower shall cause CONAFOR to ensure that the Project is carried out in accordance with the Safeguards Documents and the provisions of Section I.J of the Schedule to the Project Agreement.

2. The Borrower shall cause CONAFOR to ensure that the terms of reference for any consultancies under the Project including any consultancy related to plans, strategies and elaboration of response options and measures, or the terms of reference for any technical assistance provided under the Project, shall be satisfactory to the Bank and, to that end, such terms of reference shall incorporate the requirements of the Bank safeguard policies as applied to the advice conveyed through such consultancies and technical assistance.

D. General Implementation

For purposes of carrying out Part 1.3 of the Project, the Borrower shall cause CONAFOR to cause SEMARNAT or SAGARPA, as the case might be, to comply with the provisions of: (i) the SEMARNAT Agreement; and (ii) the SAGARPA Agreement. For purposes of carrying out the activities under Part 3.2 of the Project that will be carried out through CONABIO, the Borrower shall cause CONAFOR to cause the parties to the CONABIO Trust to comply with the provisions of the CONABIO Agreement.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

The Borrower shall cause CONAFOR to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the Project Indicators. Each
Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than sixty days after the end of the period covered by such report.

B. Financial Management. Financial Reports and Audits

1. The Borrower shall, and shall cause CONAFOR and NAFIN to, maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall cause CONAFOR to prepare and furnish to the Bank not later than 45 days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.

3. The Borrower shall cause CONAFOR to have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower, commencing with the fiscal year in which the Project becomes effective. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

All goods, works, non-consulting Services and consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth in Section III of the Schedule to the Project Agreement.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the IBRD Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank may specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions).

2. The Bank shall, on behalf of the Borrower, withdraw from the Loan Account on or after the Effective Date and pay to itself the Front-end Fee payable pursuant to Section 3.01 of the General Conditions. The remaining proceeds of the Loan shall be disbursed in Dollars unless otherwise agreed between the Borrower and the Bank and so reflected in the additional instructions referred in Section IV.A.1
immediately above. Consistently with Section 2.05 of the General Conditions, the Borrower shall use an amount equivalent to the amount in Dollars provided under this Agreement to finance Eligible Expenditures.

3. The following table specifies the categories of Eligible Expenditures that may be financed with an amount equivalent to the amount in Dollars provided under the Loan (Category), the allocation of the amounts of the Loan 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 Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, non-consulting services, consultants' services and Operating Costs for Parts 1.1, 1.2, and 1.3 of the Project</td>
<td>30,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) PSAB Payments; Programas Especiales Payments; and Goods, works, non-consulting services, consultants' services and Operating Costs for Parts 2(i), 2(ii), and 2(iii) of the Project</td>
<td>319,125,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Good, works, non-consulting services, consultants' services and Operating Costs for Parts 1.4, 3.1 and 3.2 of the Project</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Goods, works, non-consulting services, consultants' services and Operating Costs for Part 3.3 of the Project</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Front-end Fee</td>
<td>875,000</td>
<td></td>
</tr>
<tr>
<td>(6) Interest Rate Cap or Interest Rate Collar premium</td>
<td>0</td>
<td>Amount due pursuant to Section 2.07(c) of this Agreement</td>
</tr>
</tbody>
</table>

TOTAL AMOUNT: 350,000,000
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
   
   (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $70,000,000 equivalent may be made for payments made prior to this date but on or after January 1, 2012 but in no case made more than twelve (12) months prior to the date of this Agreement, for Eligible Expenditures;

   (b) under Categories (2) and (4) unless additional procurement, financial management, social, and communication specialists in numbers and with qualifications and experience satisfactory to the Bank, have been hired by CONAFOR to support the implementation of the Project, in a manner satisfactory to the Bank; and

   (c) under Category (4) unless the Guidelines for REDD+ Early Action Areas Subprojects have been issued.

2. The Borrower shall cause NAFIN not to submit withdrawal applications under Category (1) to finance activities under Part 3.2 of the Project implemented by CONABIO pursuant to the CONABIO Agreement unless the CONABIO Agreement has been entered into as referred in Section I.C.3 of the Schedule to the Project Agreement.

3. The Closing Date is February 28, 2017.
SCHEDULE 3
Amortization Schedule

The Borrower shall repay the principal amount of the Loan in full on November 15, 2024.
APPENDIX

Section I. Definitions

1. "ADL" means a local development agent (agente de desarrollo local), which may be a local NGOs or civil society organization to be selected pursuant to the provisions of Section III of the Schedule to the Project Agreement, which will provide technical assistance to Communities and/or Ejidos under Part 3.2 of the Project.

2. "ADL Agreement" means any of the agreements referred in Section I.C.5 of the Schedule to the Project Agreement.


4. "ATL" means local technical agent (agente técnico local), i.e., any of the local public agencies with a mandate in integrated rural development, including inter-municipal associations (asociaciones de municipios), which will provide support to ADL and Communities and/or Ejidos under Part 3.2 of the Project.

5. "ATL Agreement" means any of the agreements referred in Section I.C.4 of the Schedule to the Project Agreement.

6. "Cadenas Productivas Agreement" means any of the agreements referred to in Section E.3 of the Schedule to the Project Agreement.

7. "Cadenas Productivas Subproject" means a subproject to be carried out by a Community and/or Ejido and consisting of any of the activities listed in Part 2(iii) of the Project, which subproject is eligible for financing out of the proceeds of the IBRD Loan, the SCF FIP Loan, and the SCF FIP Trust Fund Grant in accordance with the criteria and other requirements set forth in the Operational Manual and the CONACFR Rules.

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

10. "Collaboration Agreements" means any of the agreements to be entered into pursuant to Sections I.C.1, I.C.2, I.C.3, I.C.4, and I.C.5 of the Schedule to the Project Agreement.

11. "Community" means any population and land tenancy unit (comunidad), with its own legal personality, governed by Title III, Chapter V of the Borrower'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, and composed mostly of indigenous peoples represented by duly elected Community officials, which meets the criteria and other requirements set forth in the Operational Manual to participate in the Project.

12. "Collaborating Entity" means any of the following entities that collaborate with CONAFOR for the implementation of the Project: SEMARNAT, SAGARPA, NAFIN (in its capacity as financial agent for the IBRD Loan, the SCF FIP Loan, the SCF FIP Grant, as trustee (mandataria) of the Forest Fund pursuant to the Forest Fund Agreement, and as trustee of the CONABIO Trust), ATLs, ADLs, CONEVAL, CDI, INMUJERES and any other entity that may be later added to support CONAFOR in the implementation of the Project with the agreement of the Bank.

13. "CONABIO Agreement" means Comisión Nacional Intersecretarial para el Conocimiento y Uso de la Biodiversidad, the Borrower’s National Commission for Biodiversity Knowledge and Use, an inter-ministerial commission created by Presidential Decree, dated March 13, 1992 (as amended by subsequent Presidential Decree, dated November 11, 1994).

14. "CONABIO’s Trust" means the biodiversity trust fund (Fideicomiso Fondo para la Biodiversidad) established pursuant to a trust agreement dated May 18, 1993 entered between various individual grantors and NAFFIN, establishing the trust (as amended by subsequent agreements) and designating NAFFIN as trustee thereof in support of CONABIO’s initiatives in the field of biodiversity conservation.

15. "CONAFOR" means Comisión Nacional Forestal, the Borrower’s national forestry commission created by a Borrower’s Presidential Decree published in the Official Gazette on April 4, 2001.

16. "CONAFOR’s Legislation" means the set of norms that have created CONAFOR and given CONAFOR the powers and attributions that allow CONAFOR to carry out this Project including, inter alia, the Mexican Forestry Law, the Borrower’s

18. “CONAFOR Rules” means the following set of rules, guidelines and procedures issued by the Borrower (through SEMARNAT and CONAFOR, as the case may be) for the implementation of the CONAFOR activities partially financed under Parts 2 and 3.3 of the Project: (i) Reglas de Operación del Programa ProArbol 2011 issued by the Borrower, through SEMARNAT and published in the Official Gazette on December 29, 2010, (ii) the Lineamientos 2011 para Otorgar Apoyos para el Desarrollo Forestal Comunitario, el Desarrollo de la Cadena Productiva Forestal y el Saneamiento Forestal issued by CONAFOR on December 31, 2010, (iii) the Lineamientos del Programa Especial Cuencas Costeras en el Estado de Jalisco, issued by CONAFOR on October 27, 2011, (iv) the Lineamientos de Operación para el Programa Especial para la Restauraición de las Microcuencas en Zonas Prioritarias: Lerma Chapala (Michoacán y Jalisco), Chichinautzin (Morelos, Distrito Federal y Estado de México), Cofre de Perote (Puebla y Veracruz), Nevado de Toluca (Estado de México), Izta-Popo (Puebla, Estado de México y Morelos), y Pico de Orizaba (Puebla, Veracruz), issued by CONAFOR on June 8, 2011, (v) the Lineamientos de Operación para el Programa Especial para la Restauración de las Cuencas de los Lagos de Pátzcuaro y Zirahuén, Michoacán, issued by CONAFOR on April 11, 2011, (vi) the Lineamientos de Operación para el Programa Especial para la Restauración de las Microcuencas en Zonas Prioritarias del Sistema Cutzamala (Michoacán y Estado de México) y de la Marquesa (Estado de México y Distrito Federal), issued by CONAFOR on April 11, 2011, and (vii) the Guidelines for REDD+ Early Action Areas Subprojects; all these set of rules, guidelines and procedures as they may be amended, from time to time with the agreement of the Bank, for purposes of the Project.


21. “Contrato de Apoyo Financiero No Reembolsable” means the agreement referred in Section I. A.1 of Schedule 2 to the SCF FIP Grant Agreement.

22. “Ejido” means any population and land tenancy unit, with its own legal personality, governed by Title III, Chapters I-IV of the Borrower’s Agrarian Law.
23. “Environmental Management Framework” means the set of procedures and measures prepared by CONAFOR and acceptable to the Bank, to be followed for the adequate environmental management of the Project, published in CONAFOR’s website on October 31, 2011 and on November 16, 2011, as said framework may be amended from time to time with the agreement of the Bank.

24. “Environmental Services” means the environmental services provided by Comunities and/or Ejidos which benefit people other than the land users in the PSAB Areas referred in Part 2(iv) of the Project.

25. “Financial Management Unit” means the financial management unit of CONAFOR referred in Section I.A.1(iii) of the Schedule to the Project Agreement.

26. “Forest Fund” means the fund managed by NAFIN, as trustee (mandatario) of the Forest Fund, where funds for the financing of the Project are held and administered by NAFIN pursuant to the provisions of the Forest Fund Agreement.

27. “Forest Fund Agreement” means the agreement (Contrato de Mandato) dated July 10, 2003 between CONAFOR and NAFIN whereby CONAFOR instructs NAFIN to administer and use the funds that CONAFOR will provide to NAFIN, for the eventual financing of selected activities of CONAFOR, including the possible financing of Subprojects, PSAB Contract Payments, and Programas Especiales Payments, as said agreement may be amended from time to time with the agreement of the Bank.

28. “Forest Investment Plan” means the Borrower’s plan, acceptable to the Bank, of priority interventions and mitigation measures to address the causes of deforestation and degradation in the Borrower’s territory approved by the SCF FIP subcommittee on October 31, 2011, as said plan may be amended from time to time with the agreement of the Bank.


30. “Guidelines for REDD+ Early Action Areas Subprojects” means the set of guidelines, eligibility criteria, requirements and procedures developed under Part 3.1(iv) of the Project and to be used for the implementation of Part 3.3 of the
Project, as said set of rules, criteria, requirements and procedures may be amended from time to time with the agreement of the Bank.

31. "Indigenous Peoples Planning Framework" means the framework acceptable to the Bank, to address indigenous peoples aspects during the implementation of the Project published in CONAFOR's website on November 29, 2011, as said framework may be amended from time to time with the agreement of the Bank.

32. "INMUJERES" means Instituto Nacional de las Mujeres, the Borrower's agency for women's affairs, a decentralized public agency of the Borrower with its own legal personality created pursuant to the Borrower's Law of the National Women's Institute published in the Official Gazette on January 12, 2001.

33. "Involuntary Resettlement" means the impact of an involuntary taking of land under the Project, which taking causes affected persons to have their: (a) income source or means of livelihood adversely affected (whether or not the affected persons must move to another location); or (b) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (c) access to productive assets adversely affected, temporarily or permanently; or (d) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently.

34. "Mandato Agreement for the IBRD Loan" means the contract referred to in Section I.A of Schedule 2 to this Agreement which terms and conditions include, inter alia, the obligation of NAFIN to act as financial agent for the Borrower, the obligation of the Borrower to make the proceeds of the Loan available to CONAFOR, and the obligation of CONAFOR to implement the Project.

35. "Mandato Agreement for the SCF FTP Loan" means the contract referred to in Section I.A of Schedule 2 to the SCF FIP Loan Agreement which terms and conditions include, inter alia, the obligation of NAFIN to act as financial agent for the Borrower, the obligation of the Borrower to make the proceeds of the SCF FIP Loan available to CONAFOR, and the obligation of CONAFOR to implement the Project.

36. "Mexican Forest Legal Framework" means the Borrower's legal framework for the forest sector including (i) the Mexican general forest law (Ley General de Desarrollo Forestal Sustentable), published in the Borrower's Official Gazette on February 25, 2003 (as amended through November 16, 2011), (ii) the implementing regulations of the Mexican forest law (including, but not limited to, the Reglamento de la Ley General de Desarrollo Forestal Sustentable), (iii) the Mexican law for ecological balance (Ley de Equilibrio Ecológico y Protección del Ambiente), published in the Borrower's Official Gazette on January 28, 1988 (as amended through August 30, 2011), (iv) the implementing
regulation the Mexican law for ecological balance (the *Reglamento de la Ley de Equilibrio Ecológico y Protección del Ambiente en Materia de Evaluación del Impacto Ambiental*, published in the Official Gazette on May 30, 2000), and (v) the internal regulations of SEMARNAT (*Reglamento Interior de SEMARNAT*) published in the Official Gazette on January 21, 2003 (as amended through August 24, 2009).

37. “NAFIN” means *Nacional Financiera, S.N.C.*, a Mexican development bank serving as the Borrower’s financial agent for purposes of the Loan.


39. “Operating Costs” means the reasonable minor incremental operating expenses incurred by CONAFOR, on account of Project implementation, supervision, monitoring and evaluation, including minor costs of office operation and maintenance, and travel and *per diem*, but excluding salaries of CONAFOR officials and public servants of the Borrower’s civil service.

40. “Operational Manual” means the manual for the implementation of the Project dated December 20, 2011 referred in Section I.F of the Project Agreement.

41. “Operations Committee” means the committee referred in Section I.A.1(ii) of the Schedule to the Project Agreement.

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


44. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated November 29, 2011 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

45. “Prodefor Agreement” means any of the agreements referred to in Section E.2 of the Schedule to the Project Agreement.

46. “Prodefor Subproject” means a subproject to be carried out by a Community and/or *Ejido* and consisting of any of the activities listed in Part 2(ii) of the Project, which subproject is eligible for financing out of the proceeds of the IBRD Loan, the SCF FIP Loan, and the SCF FIP Grant in accordance with the
criteria and other requirements set forth in the Operational Manual and the CONAFOR Rules.

47. "Project Implementing Entity” means CONAFOR.

48. “Programas Especiales Agreement” means any contract between CONAFOR and a Community or Ejido which meets the environmental, social and other requirements of the CONAFOR Rules, and includes the obligation of the Community and/or Ejido to carry out a set of activities among those described under Part 2(v) of the Project, and referred to in Section E.5 of the Schedule to the Project Agreement.

49. “Programas Especiales Payments” means the payments made by CONAFOR to a Community or Ejido pursuant to the terms of the relevant Programas Especiales Agreement which meets the environmental, social and other requirements of the CONAFOR Rules for financing out of the proceeds of the IBRD Loan, said payments to finance the cost of the activities to be carried out by the Community and/or Ejido under the relevant Subproject, and the opportunity cost of the foregone activity in the area where the Subproject will be carried out.

50. “Programas Especiales Subproject” means a subproject to be carried out by a Community and/or Ejido and consisting of any of the activities listed in Part 2(v) of the Project, which subproject is eligible for financing out of the proceeds of the IBRD Loan in accordance with the criteria and other requirements set forth in the Operational Manual and the CONAFOR Rules.

51. “Project Agreement” means the agreement referred to in the whereas clause (C) of this Agreement.

52. “PSAB Agreement” means any contract between CONAFOR to a Community or Ejido under Part 2(iv) of the Project, for the provision of Environmental Services, or a Community for the provision of Environmental Services which meet the environmental, social and other requirements of the PSAB Rules, and referred to in Section E.4 of the Schedule to the Project Agreement.

53. “PSAB Area” means any area which has been selected given its environmental, hydrological or biodiversity value for the financing of Environmental Services generated in such area, as said eligibility criteria is set forth in the PSAB Rules.

54. “PSAB Payments” means the payments made by CONAFOR to a Community or Ejido pursuant to the terms of the relevant PSAB Agreement, which meets the environmental, social and other requirements of the CONAFOR Rules for financing out of the proceeds of the IBRD Loan, the SCF FIP Loan, and the SCF FIP Grant.
55. “REDD+” means reducing emissions from deforestation and forest degradation plus conservation, sustainable management of forests and enhancement of forest carbon stocks.

56. “REDD+ Early Action Areas” means any of the pilot areas where REDD+ Early Action Areas Subprojects will be carried out, as said areas are identified and selected by CONAFOR in accordance with the Guidelines for REDD+ Early Action Areas Subprojects, and any other area as CONAFOR may propose and the Bank may agree.

57. “REDD+ Early Action Areas Subproject” means a subproject for activities for reducing emissions from deforestation and forest degradation such as, *inter alia*, sustainable forest management, protection of environmental services, enhancement of carbon stocks in forest landscapes, agroforestry, sustainable use of non timber products, and promotion of alternative low carbon sustainable community-based activities, all of this to be carried out under Part 3.3 of the Project, in REDD+ Early Action Areas selected by CONAFOR in accordance with the criteria and procedures set forth in the Guidelines for REDD+ Early Action Areas Subprojects.

58. “REDD+ Early Action Areas Agreement” means any agreement to be entered between a Community and/or Ejido and CONAFOR for the financing of a REDD+ Early Action Areas Subproject and referred to in Section E.6 of the Schedule to the Project Agreement.

59. “Resettlement Process Framework” means the framework, acceptable to the Bank, published in CONAFOR’s website on November 17, 2011, as said framework may be amended from time to time with the agreement of the Bank.


61. “SAGARPA” means *Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación*, the Borrower’s Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food.

62. “SAGARPA Agreement” means the agreement referred in Section I.C.2 of the Schedule to the Project Agreement dated November 9, 2011.

63. “SCF FIP Grant” or “Grant” means the grant made available by the Bank, acting not in its own capacity but solely in its capacity as implementing agency of the Strategic Climate Fund, to the Recipient pursuant to the terms of the SCF FIP Trust Fund Grant Agreement.
64. "SCF FIP Trust Fund Grant Agreement" means the agreement, of even date herewith, between the United Mexican States, as recipient, and the World Bank, the latter acting not in its individual capacity but solely in its capacity as implementing entity of the Strategic Climate Fund.

65. "SCF FIP Loan" means the loan made available by the Bank, acting not in its own capacity but solely in its capacity as implementing agency of the Strategic Climate Fund to the Borrower pursuant to the terms of the SCF FIP Loan Agreement.

66. "SCF FIP Loan Agreement" means the agreement, of even date herewith, between the Borrower and the Bank, the latter, acting not in its individual capacity but solely in its capacity as implementing entity of the Strategic Climate Fund, providing for the partial financing of the Project.

67. "SEMARNAT" means Secretaría de Medio Ambiente y Recursos Naturales, the Borrower's Secretariat for Environment and Natural Resources.

68. "SEMARNAT Agreement" means the agreement referred in Section I.C.1 of the Schedule to the Project Agreement dated November 7, 2011.

69. "SEPA" means the Bank's publicly accessible Procurement Plans Execution System.

70. "SHCP" means Secretaría de Hacienda y Crédito Público, the Borrower's Secretariat of Finance and Public Credit.

71. "Silvicultura Comunitaria Agreement" means any of the agreements referred to in Section E.1 of the Schedule to the Project Agreement.

72. "Silvicultura Comunitaria Subproject" means a subproject to be carried out by a Community and/or Ejido and consisting of any of the activities listed in Part 2(i) of the Project, which subproject is eligible for financing out of the proceeds of the IBRD Loan, the SCF FIP Loan, and the SCF FIP Grant in accordance with the criteria and other requirements set forth in the Operational Manual and the CONAFOR Rules.

73. "Steering Committee" means the committee referred in Section I.A.1(i) of the Schedule to the Project Agreement.

74. "Subprojects" means the set of activities to be carried out by a Community or Ejido under Parts 2 and 3.3 of the Project.