

CONFORMED COPY

GEF SCCF GRANT NUMBER TF096681

*Global Environment Facility*  
*Special Climate Change Fund*  
**Grant Agreement**

(Adaptation to Climate Change Impacts on the Coastal Wetlands in the Gulf of Mexico Project)

among

UNITED MEXICAN STATES

and

NACIONAL FINANCIERA, S.N.C.

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

acting as an Implementing Agency of the Global Environment Facility

**GEF SCCF GRANT NUMBER TF096681**

**GLOBAL ENVIRONMENT FACILITY  
GRANT AGREEMENT**

AGREEMENT dated as of the Signature Date (as defined in the Appendix to the Grant Agreement) entered into among:

UNITED MEXICAN STATES (“Recipient”) represented by its signatories on page 7 of this Agreement (including SECRETARIA DE MEDIO AMBIENTE Y RECURSOS NATURALES (“SEMARNAT”) acting through INSTITUTO NACIONAL DE ECOLOGÍA (“INE”) as a Recipient’s executing agency for purposes of the Grant); INSTITUTO MEXICANO DE TECNOLOGÍA DEL AGUA (“IMTA”) acting as Recipient’s executing agency for purposes of the Grant; NACIONAL FINANCIERA S.N.C. (“NAFIN”) acting as the Recipient’s financial agent for purposes of the Grant; and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“World Bank” or the “Bank”), acting as an implementing agency of the Global Environment Facility (“GEF”).

WHEREAS the World Bank, acting as administrator of grant funds provided by Japan under the Policy and Human Resources Development Trust Funds, has provided a grant to the Recipient in an amount of \$545,000 (five hundred forty five thousand Dollars) to prepare this Project.

WHEREAS *Petróleos Mexicanos* is investing \$349,000 (three hundred forty nine thousand Dollars) in baseline activities to protect wetlands in the Alvarado Lagoon area to support the Project as evidenced by its letter to INE dated February 13, 2009.

WHEREAS the Recipient’s *Comisión Nacional del Agua* (“CONAGUA”) is financing baseline investment activities to improve water quality and control in the Project area, with its own resources for an estimated amount of \$15,000,000 (fifteen million Dollars).

WHEREAS the Recipient’s *Instituto Mexicano de Tecnología del Agua* (“IMTA”) has committed in kind contributions estimated at \$540,000 (five hundred forty thousand Dollars) to support the Project, as evidenced by IMTA’s letter to the Bank dated November 25, 2008.

WHEREAS the Bank and the Japan Aerospace Exploration Agency (“JAXA”) have signed on April 17, 2008 a memorandum of understanding through which JAXA has agreed, *inter alia*, to facilitate generation and access of data from a satellite owned by JAXA in various geographical areas for purposes of analysis in various projects, including the Project.

WHEREAS the Meteorological Research Institute of Japan (“MRI”) and the World Bank, together with other institutions (including INE), have signed an amendment to their Memorandum of Understanding of July 11, 2006 to cooperate in the analysis of extreme weather events in the medium term with a particular focus on hurricanes in the Atlantic coast of Mexico, among other areas.

WHEREAS the North American Wetland Conservation Commission (“NAWCA”) intends to provide a \$769,000 (seven hundred sixty nine thousand Dollars) grant to Ducks Unlimited de México, A.C. (“DUMAC”), to work on restoring the critical habitat for aquatic birds in the coastal wetlands of Mexico, and said work will be supported by INE through the provision of human resources for an estimated amount of \$250,000 (two hundred fifty thousand Dollars).

WHEREAS the Recipient’s INE has committed an additional in-kind contribution for an equivalent of \$1,000,000 (one million Dollars) to support the Project, as evidenced by INE’s letter to the Bank dated February 12, 2009.

WHEREAS the World Bank, in making this Grant, has taken into account the commitments made by the Recipient (through CONAGUA, INE and IMTA), JAXA, MRI, NAWCA and *Petróleos Mexicanos*.

The Recipient, IMTA, NAFIN and the World Bank hereby agree as follows:

**Article I**  
**Standard Conditions; Definitions**

- 1.01. The Standard Conditions 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 Recipient declares its commitment to the objective of the project described in Schedule 1 to this Agreement (“Project”). To this end, the Recipient, through SEMARNAT, shall: (i) carry out Parts 1 and 2 of the Project through INE (with the administrative and fiduciary support of IMTA); and (ii) cause IMTA to carry out Parts 3 and 4 of the Project (Part 3 of the Project, with the collaboration of CONAGUA), all of this in accordance with the provisions of Article II of the Standard Conditions.

- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient, through SEMARNAT (through INE), 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 Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to four million five hundred thousand United States Dollars (\$4,500,000) (the "Grant") to assist in financing the Project.
- 3.02. The Recipient 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 Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consist of the following, namely, that the Recipient, through SEMARNAT (including INE, CONAGUA and CONANP), IMTA or any other public or private entity has withdrawn its support to the Project (or to activities related to the Project) in a manner that makes the level of counterpart resources devoted to this Project be less than the equivalent to US\$17,139,000 or, in a manner that does not allow the successful carrying out of the Project.

**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, and in Section 5.02 of this Agreement, have been satisfied:
- (a) the execution and delivery of this Agreement on behalf of the Recipient, IMTA, and NAFIN have been duly authorized or ratified by all necessary governmental and corporate action;
  - (b) the *Contrato de Apoyo Financiero No Reembolsable* has been duly executed by the parties thereto; and
  - (c) the SEMARNAT (INE)-IMTA Agreement has been duly executed by the parties thereto.

- 5.02. As part of the evidence to be furnished pursuant to Section 5.01 of this Agreement, there shall be furnished to the World Bank:
- (a) an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank showing, on behalf of the Recipient, SEMARNAT (through INE), IMTA, and NAFIN, that this Agreement has been duly authorized or ratified by, and executed and delivered on their behalf and is legally binding upon them in accordance with its terms;
  - (b) an opinion or opinions satisfactory to the World Bank of counsel for the Recipient, acceptable to the World Bank, providing that the SEMARNAT (INE)-IMTA Agreement has been duly authorized or ratified by the Recipient through SEMARNAT (through INE) and IMTA and is legally binding upon the Recipient and IMTA in accordance with the terms of the SEMARNAT (INE)-IMTA Agreement; and
  - (c) an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank showing, on behalf of the Recipient, IMTA, and of NAFIN, that the *Contrato de Apoyo Financiero No Reembolsable* has been duly authorized or ratified by, and executed and delivered on behalf of, the Recipient through SEMARNAT (through INE), IMTA and NAFIN and is legally binding upon the Recipient, IMTA and NAFIN in accordance with the *Contrato de Apoyo Financiero No Reembolsable*'s terms.
- 5.03 Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 of this Agreement. If before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone 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 Signature Date of this Agreement, unless the World Bank after consideration of the reasons for delay, establishes a later date for the purpose of this Section, which may in no case be later than the eighteen (18) months after the World Bank's approval of the Grant which expire on May 23, 2012. The World Bank shall promptly notify the Recipient of such later date.

**Article VI**  
**Recipient's Representative; Addresses**

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

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

Secretaría de Hacienda y Crédito Público  
Unidad de Asuntos Internacionales de Hacienda  
Insurgentes Sur 1971  
Torre III, tercer piso  
Colonia Guadalupe Inn  
01020 México, D.F.  
Facsimile: 011-52-55-3688-1216

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

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

Facsimile: 011-52 55325-6929

SEMARNAT-INE

Periférico sur 5000  
Colonia Insurgentes-Cuicuilco  
Delegación Coyoacán  
México, D.F.  
C.P. 04530  
Tel. +52 (55) 5424 6400

Facsimile: +52 (55) 5424 5485

IMTA

Dirección General del IMTA  
Paseo Cuauhnahuac 8532  
Colonia Progreso  
Jiutepec, Morelos

C.P. 62550  
Phone: +52 (777) 329-3600

Facsimile: +52 777 329 3685

- 6.04. The World Bank's Address referred to in Section 7.01 of the Standard Conditions is:

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

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

AGREED at Mexico City, Mexico, on behalf of the Bank on May 11, 2011, on behalf of NAFIN on April 28, 2011, and on behalf of the Recipient, through SHCP, as legal representative of the Recipient, on May 10, 2011, and through SEMARNAT, as executing agency of the Recipient on April 27, 2011, and on behalf of IMTA, as executing agency of the Recipient, on April 29, 2011.

**UNITED MEXICAN STATES**

**By /s/ Ricardo Ochoa Rodríguez**

**Titular de la Unidad de Asuntos  
Internacionales de Hacienda  
Secretaría de Hacienda y Crédito Público  
Date: May 10, 2011**

**By /s/ Fernando Tudela Abad**

**Secretaría de Medio Ambiente y  
Recursos Naturales  
Date: April 27, 2011**

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

**By /s/ Gloria M. Grandolini**

**Authorized Representative  
Date: May 11, 2011**

**NACIONAL FINANCIERA S.N.C.**

**By /s/ Danielle Pellat Thome**

**Authorized Representative  
Date: April 28, 2011**

**INSTITUTO MEXICANO DE TECNOLOGÍA  
DEL AGUA**

**By /s/ Polioptro Martínez Austria**

**Authorized Representative  
Date: April 29, 2011**



## SCHEDULE 1

### Project Description

The objectives of the Project are: (i) to promote adaptation to the consequences of climate impacts in the coastal wetlands of the Gulf of Mexico, through the implementation of pilot measures that will provide information about the costs and benefits of alternative approaches to reduce the vulnerability of said coasts to climate change; and (ii) to assess the overall impacts of climate change on the Recipient's national water resource planning, including the identification of potential response options, with a focus on coastal wetlands and associated watersheds.

The Project consists of the following parts:

Part 1: Design of Selected Adaptation Measures and Technical Coordination of the Project

Detailed design of the adaptation measures to be implemented under the Project, taking into account federal programs of the Recipient that deal with wetland management in the Pilot Areas. Provision of technical assistance to facilitate modeling, generation of data, analysis, and access to information and long-term remote sensing of the Pilot Areas. Provision of technical assistance to facilitate the technical coordination of the Project.

Part 2: Implementation of Pilot Adaptation Measures in Highly Vulnerable Wetlands

Development and implementation of, *inter alia*, comprehensive wetland management plans and land zoning for the Pilot Areas (including, *inter alia*, specific measures and procedures to prevent and otherwise address deforestation and illegal construction) and, in connection therewith, the implementation of a technical monitoring system; and the carrying out of adaptation measures as follows:

- (a) Under the Tampico Agreement for the Tamaulipas Pilot Area: taking all appropriate action needed for: (i) the preparation of a climate resilient coastal zoning plan and associated regulations, and submission of said plan and regulations to the Tampico Municipal Council; (ii) the preparation and implementation of specific adaptation measures, including the strengthening of land barriers and the carrying out of other conservation measures around the Lagoon La Escondida; and (iii) the elaboration of an expansion plan for the conservation area around the Lagoon La Escondida.
- (b) Under the Alvarado Agreement for the Veracruz Pilot Area: taking all appropriate action needed for: (i) the integration of climate concerns in

the conservation and management strategy of the Alvarado Lagoon, including the adoption of a plan for the enforcement of a buffer zone around the Alvarado Lagoon; and (ii) the construction of a pilot stabilization barrier to buffer extreme weather events and future rises in sea levels.

- (c) Under the Cardenas Agreement for the Tabasco Pilot Area, taking all appropriate action needed for: (i) the development of a wetland conservation and management strategy, including the updating of land zoning regulations; (ii) the carrying out of pilot restoration and reforestation with native species along biological corridors; and (iii) the carrying out of pilot strengthening of the sandbars that separate lagoons from the sea.
- (d) Under the INE-IMTA-CONANP Agreement for the Sian Ka'an Pilot Area, taking all appropriate action needed for: (i) the strengthening the Sian Ka'an Pilot Area's monitoring system and the revision of the protected area management plan to include climate change impacts; and (ii) the carrying out of pilot repopulation of coastal reefs to maintain their buffering capability and protection of the coastal wetland.

Part 3: Assessment of the Impacts of Climate Change on Water Resources Planning at a National Level and in Coastal Wetlands including the Identification of Potential Response Options

Development of climate change impact scenarios on the Recipient's national water resources, hydrologic characterization of pilot emblematic basins with a focus on coastal wetlands and associated watersheds and identification of response options and measures that could be adopted at a national level to incorporate the anticipated impacts of climate change on water resource planning.

Part 4: Project Management

Coordination of the administrative, financial management, procurement, and safeguard aspects of the Project.

## SCHEDULE 2

### Project Execution

#### Section I. Institutional and Other Arrangements

##### A. **Subsidiary Agreements**

1. SEMARNAT (INE)-IMTA Agreement. The Recipient, through SEMARNAT (through INE), shall enter into an agreement with IMTA, satisfactory to the Bank, whereby:
  - (i) SEMARNAT (through INE) agrees to:
    - (a) provide the technical leadership for the carrying out of the activities under Parts 1 and 2 of the Project, and the technical monitoring activities of the entire Project; and
    - (b) carry out the Environmental Assessment for each of the Pilot Areas, and thereafter implement, and comply with, the recommendations of the referred Environmental Assessments.
  - (ii) IMTA agrees to:
    - (a) carry out the financial management (including the handling of all Grant funds) and procurement activities of the Project;
    - (b) carry out Part 3 of the Project in collaboration with SEMARNAT (through CONAGUA); and
    - (c) ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.
  
2. Tampico Agreement. The Recipient, through SEMARNAT (through INE), shall, and shall cause IMTA to, enter into an agreement with the Municipality of Tampico, satisfactory to the Bank, whereby:
  - (i) the Municipality of Tampico agrees to carry out the following activities in a manner satisfactory to the Bank:
    - (a) support the implementation of the adaptation and conservation activities required under Part 2(a) of the Project in a manner fully consistent with the terms and conditions of this Agreement, the Operational Manual, and the Environmental Management Framework;

- (b) propose to the Tampico Municipal Council for its consideration and approval a land zoning proposal for the Tamaulipas Pilot Area;
  - (c) carry out all necessary activities, with due diligence, to prevent deforestation and illegal construction in the Tamaulipas Pilot Area (with particular emphasis on the buffer zone around the La Escondida Lagoon area) as a consequence, or in connection with, the Project;
  - (d) not to demolish any existing building as a consequence of, or in connection with, the Project,
  - (e) not to impose restrictions on ongoing livelihood or recreational activities as a consequence of, or in connection with, the Project; and
  - (f) ensure that no activity directly related to the Project causes any Involuntary Resettlement;
- (ii) SEMARNAT (through INE) agrees to coordinate the technical aspects of the activities under Part 2(a) of the Project; and
  - (iii) IMTA retains the responsibilities for financial management (including the handling of all Grant funds needed for the implementation of Part 2(a) of the Project), and the procurement under Part 2(a) of the Project.
3. Alvarado Agreement. The Recipient, through SEMARNAT (through INE) shall, and shall cause IMTA to, enter into an agreement with the Municipality of Alvarado, satisfactory to the Bank, whereby:
- (i) the Municipality of Alvarado agrees to carry out the following activities in a manner satisfactory to the Bank:
    - (a) support the implementation of the adaptation and conservation activities required under Part 2(b) of the Project in a manner fully consistent with the terms and conditions of this Agreement, the Operational Manual, and the Environmental Management Framework;
    - (b) propose to the Alvarado Municipal Council for its consideration and approval a conservation and management strategy for the Veracruz Pilot Area;
    - (c) carry out all necessary activities, with due diligence, to prevent deforestation and illegal construction in the Veracruz Pilot Area

(with particular emphasis on the buffer zone around the Alvarado Lagoon area) as a consequence of, or in connection with, the Project; and

- (d) ensure that no activity directly related to the Project causes any Involuntary Resettlement;
  - (ii) SEMARNAT (through INE) agrees to coordinate the technical aspects of the activities under Part 2(b) of the Project; and
  - (iii) IMTA retains the responsibilities for financial management (including the handling of all Grant funds needed for the implementation of Part 2(b) of the Project), and the procurement under Part 2(b) of the Project.
4. Cárdenas Agreement. The Recipient, through SEMARNAT (through INE) shall, and shall cause IMTA to, enter into an agreement with the Municipality of Cárdenas, satisfactory to the Bank, whereby:
- (i) the Municipality of Cárdenas agrees to carry out the following activities in a manner satisfactory to the Bank:
    - (a) support the implementation of the adaptation and conservation activities required under Part 2(c) of the Project in a manner fully consistent with the terms and conditions of this Agreement, the Operational Manual, and the Environmental Management Framework;
    - (b) prepare and furnish to the Cárdenas Municipal Council for its consideration and approval a proposal updating the city of Cárdenas' land zoning regulations for the Tabasco Pilot Area;
    - (c) carry out all necessary activities, with due diligence, to prevent deforestation and illegal construction in the Tabasco Pilot Area as a consequence of, or in connection with, the Project; and
    - (d) ensure that no activity directly related to the Project causes any Involuntary Resettlement;
  - (ii) SEMARNAT (through INE) agrees to coordinate the technical aspects of the activities under Part 2(c) of the Project; and
  - (iii) IMTA retains the responsibilities for financial management (including the handling of all Grant funds needed for the implementation of Part 2(c) of the Project), and the procurement under Part 2(c) of the Project.

5. INE-IMTA-CONANP Agreement.

The Recipient, through SEMARNAT (through INE and CONANP) shall enter into an agreement with IMTA, satisfactory to the Bank, whereby:

- (i) CONANP agrees to carry out the following activities in a manner satisfactory to the Bank:
  - (a) support the implementation of the adaptation and conservation activities required under Part 2(d) of the Project in a manner fully consistent with the terms and conditions of this Agreement, the Operational Manual, and the Environmental Management Framework,
  - (b) carry out all necessary activities, with due diligence, to prevent deforestation and illegal construction in the Boca Paila (Punta Allen) lagoon system, Quintana Roo as a consequence of, or in connection with, the Project; and
  - (c) ensure that no activity directly related to the Project causes any Involuntary Resettlement;
- (ii) SEMARNAT (through INE) agrees to coordinate the technical aspects of the activities under Part 2(d) of the Project; and
- (iii) IMTA retains the responsibilities for financial management (including the handling of all Grant funds needed for the implementation of Part 2(d) of the Project), and the procurement under Part 2(d) of the Project.

6. Subsidiary Agreements.

- (a) The Recipient shall exercise its rights and carry out its obligations under the SEMARNAT(INE)-IMTA Agreement, the Tampico Agreement, the Alvarado Agreement, the Cárdenas Agreement, and the INE-IMTA-CONANP Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant.
- (b) Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive or fail to enforce the SEMARNAT(INE)-IMTA Agreement, the Tampico Agreement, the Alvarado Agreement, the Cárdenas Agreement, or the INE-IMTACONANP Agreement, or any of their provisions.
- (c) The Recipient shall ensure that all Grant funds are handled exclusively by IMTA. Notwithstanding the provisions set forth under Section I.A.1

(ii)(a) of this Schedule 2, in case that any of the Subsidiary Agreements needs to be amended to include the transfer of Grant funds to the Municipality of Tampico, the Municipality of Alvarado, the Municipality of Cárdenas, or to CONANP, the Recipient, through SEMARNAT (through INE) shall, and shall cause IMTA to, ensure that provisions to guarantee compliance with the Anticorruption Guidelines are included in the relevant Subsidiary Agreement.

7. *Contrato de Apoyo Financiero No Reembolsable.*

- (i) The Recipient, through SEMARNAT (through INE) shall, and shall cause IMTA to enter into a contract (*Contrato de Apoyo Financiero No Reembolsable*) with NAFIN, satisfactory to the World Bank, whereby, *inter alia*:
  - (a) NAFIN agrees to act as financial agent of the Recipient with regard to the Grant, meaning that, *inter alia*, NAFIN agrees to represent the Recipient vis-à-vis the Bank for purposes of submitting withdrawal applications to the World Bank in form and substance sufficient to justify disbursement by the World Bank to the Recipient of Grant proceeds and agrees to maintain and operate an account in compliance with the terms of this Agreement;
  - (b) SEMARNAT (through INE) and IMTA shall have the right to, in case of fraud or corruption (as defined in the Anti-Corruption Guidelines) provide for the early termination of the *Contrato de Apoyo Financiero No Reembolsable* or temporarily suspend its effects and/or require the restitution of the funds transferred to NAFIN in relation to the Project; and
  - (c) NAFIN shall have the right to, in case of fraud or corruption (as defined in the Anti-Corruption Guidelines) provide for the early termination of the *Contrato de Apoyo Financiero No Reembolsable* or temporarily suspend its effects and/or require the restitution of the funds transferred to SEMARNAT (through INE) and IMTA under said *Contrato de Apoyo Financiero No Reembolsable*.
- (ii) The Recipient, through SEMARNAT (through INE) and IMTA agree to cooperate fully with NAFIN to ensure that NAFIN is able to comply with all of its obligations under the *Contrato de Apoyo Financiero No Reembolsable*.

- (iii) The Recipient, through SEMARNAT (through INE), IMTA, and NAFIN shall all exercise their rights and carry out their obligations under the *Contrato de Apoyo Financiero No Reembolsable* in such a manner as to protect the interests of the World Bank and to accomplish the purposes of the Grant, all with the appropriate due diligence and efficiency for the benefit of the Project. Except as the World Bank may otherwise agree, neither the Recipient, through SEMARNAT (through INE), nor IMTA nor NAFIN shall amend or fail to enforce any provision of *Contrato de Apoyo Financiero No Reembolsable*.
- (iv) In case of any conflict between the terms of the *Contrato de Apoyo Financiero No Reembolsable* and those of this Agreement, the terms of this Agreement shall prevail.

**B. Other**

1. Operational Manual. Without limitation upon the provisions of Section 2.01 of this Agreement, the Recipient, through SEMARNAT (through INE) shall carry out the Project and shall cause IMTA to carry out the Project in accordance with the Operational Manual. Except as the Bank shall otherwise agree, the Recipient through SEMARNAT (through INE) shall not amend, waive or fail to enforce any provision of the Operational Manual without the Bank's prior written approval. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.
2. The Recipient shall, through SEMARNAT (through INE), and shall cause IMTA to maintain an operational manual, satisfactory to the Bank, containing, *inter alia*:
  - (a) specific provisions on detailed arrangements for the carrying out of the Project, including: the procurement, financial management and disbursement requirements thereof;
  - (b) the Environmental Management Framework; and
  - (c) maps detailing the exact geographical coordinates of the Pilot Areas.
3. Steering Committee. The Recipient, through SEMARNAT (through INE) , shall maintain, at all times during Project implementation, a steering committee consisting of SEMARNAT (through INE and CONAGUA) and IMTA as permanent members, and including, as appropriate, one representative from, *inter alia*, each of the States of Tamaulipas, Veracruz, Tabasco, and Quintana Roo and one representative of CONANP, with functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility of said committee to approve



the Project's annual operating plans and provide general guidance to the Project implementation team referred to in Section I.B.4 below.

4. Implementation Team. The Recipient (through SEMARNAT) shall:
  - (a) cause IMTA to maintain, at all times during Project implementation, a technical coordinator to coordinate and oversee the implementation of Parts 3 and 4 of the Project, who is assisted by adequate technical staff, in numbers and with experience and qualifications acceptable to the World Bank, operating under terms of reference satisfactory to the World Bank; and
  - (b) in INE maintain, at all times during Project implementation, a technical coordinator to coordinate and oversee the implementation of Parts 1 and 2 of the Project, who is assisted by adequate technical staff, in numbers and with experience and qualifications acceptable to the World Bank, operating under terms of reference satisfactory to the World Bank.
  
5. Safeguards.
  - (a) The Recipient, through SEMARNAT (through INE and CONANP), shall, and shall cause IMTA, the Municipality of Tampico, the Municipality of Alvarado and the Municipality of Cárdenas, under their respective Subsidiary Agreements, to ensure that:
    - (i) no activity directly related to the Project causes any Involuntary Resettlement;
    - (ii) measures, satisfactory to the Bank, are taken to prevent deforestation and illegal construction in the Pilot Areas as a consequence of, or in connection with, the Project;
    - (iii) the Environmental Management Framework is implemented and complied with; and
    - (iv) no activities are carried out in any of the Pilot Areas until the relevant Environmental Assessment has been completed.
  - (b) The Recipient, through SEMARNAT (through INE) shall ensure, and shall cause IMTA to ensure, that the terms of reference for any consultancies related to plans, zoning, 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.

- (c) The Recipient, through SEMARNAT (through INE) shall carry out an environmental assessment for each of the Pilot Areas in a manner satisfactory to the Bank and consistent with the Environmental Management Framework, and shall ensure that no activity is carried out in any of the Pilot Areas before the environmental assessment of the relevant Pilot Area has been completed.
- (d) The Recipient, through SEMARNAT (through INE) shall implement, and comply with, the recommendations of each and all of the Environmental Assessments in a manner satisfactory to the Bank.

**C. Anti-Corruption**

- 1. The Recipient shall, through SEMARNAT (through INE), and shall cause IMTA to, ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.
- 2. NAFIN shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports; Completion Report**

- 1. The Recipient, through SEMARNAT (through INE) shall, and shall cause IMTA to, monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five days after the end of the period covered by such report.
- 2. The Recipient, through SEMARNAT (through INE) shall, and shall cause IMTA to, prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the Bank not later than six months after the Closing Date.

**B. Financial Management; Financial Reports; Audits**

- 1. The Recipient, through SEMARNAT (through INE) shall, and shall cause IMTA to, ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient, through SEMARNAT shall cause IMTA to ensure that interim unaudited financial reports for the Project are prepared and furnished to the Bank not later than forty five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the Bank.
3. The Recipient, through SEMARNAT shall cause IMTA to have its Financial Statements for 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 fiscal year of the Recipient. 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**

#### **A. General**

1. **Goods and Works.** All goods and works (including non consultant 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 Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All 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 Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.
4. **Special Provisions.** The Recipient, through SEMARNAT, shall cause IMTA to: (a) supply the SEPA with the information contained in the initial Procurement Plan within 60 days of the Signature Date; and (b) update the Procurement Plan at least once a year, or as necessary or required by the Bank, 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 and Works**

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

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding
(b) Shopping
(c) Community Procurement
(d) Direct Contracting, with the Bank’s prior written consent

**C. Particular Methods of Procurement of Consultants’ Services**

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 table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b><u>Procurement Method</u></b>
(a) Least Cost Selection
(b) Fixed Budget Selection
(c) Single-Source Selection
(d) Commercial Practices
(e) Procedures set forth in paragraphs 5.2 and 5.4 of the Consultant Guidelines for the selection of Individual Consultants

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

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.

**Section IV. Withdrawal of Grant Proceeds**

**A. General**

1. The Recipient may or may cause NAFIN to withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (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. The Recipient’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section shall be notified in writing to the Bank by the Recipient.
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:

<u>Category</u>	<u>Amount of the Grant Allocated (expressed in USD)</u>	<u>Percentage of Expenditures to be Financed (inclusive of Taxes)</u>
(1) Goods, works, consultants’ services, non consultant services and Operational Costs under Part 1 of the Project	744,400	100%
2 (a) Goods, works, consultants’ services, non consultant services and Operational Costs under Part 2(a) of the Project	900,000	100%
2 (b) Goods, works, consultants’ services, non consultant services and Operational Costs under Part 2(b) of the Project	730,000	100%
2 (c) Goods, works, consultants’ services, non consultant services and Operational Costs under Part 2(c) of the Project	785,000	100%
2 (d) Goods, works, consultants’ services, non consultant services and Operational Costs under Part 2(d) of the Project	541,200	100%
(3) Goods, works, consultants’ services, non consultant services and Operational Costs under Part 3 of the Project	500,000	100%
(4) Goods, works, consultants’ services (including external audits), non consultant services and Operational Costs under Part 4	299,400	100%

of the Project		
<b>TOTAL AMOUNT</b>	4,500,000	

For purposes of this Section, the term “Operational Costs” means the reasonable cost of recurrent expenditures for the implementation of the Project (excluding salaries) such as lodging and *per diem* and transportation costs, which would not have been incurred absent the Project.

**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 Signature Date, except that withdrawals up to an aggregate amount not to exceed \$900,000 equivalent may be made for payments made within a year prior to this date, for Eligible Expenditures;
  - (b) for payments made under Category 2 (a) unless (i) the Tampico Agreement has been entered into and (ii) the Environmental Assessment for the Tamaulipas Pilot Area has been completed;
  - (c) for payments made under Category 2 (b) unless (i) the Alvarado Agreement has been entered into and (ii) the Environmental Assessment for the Veracruz Pilot Area has been completed;
  - (d) for payments made under Category 2 (c) unless (i) the Cárdenas Agreement has been entered into and (ii) the Environmental Assessment for the Tabasco Pilot Area has been completed; and
  - (e) for payments made under Category 2 (d) unless (i) the SEMARNAT (INE)-IMTA-CONANP Agreement has been entered into and (ii) the environmental assessment for the Sian Ka’an Pilot Area has been completed.
2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is October 31, 2015.

## APPENDIX

### Section I. Definitions

1. “Alvarado Agreement” means the agreement referred to in Section I.A.3 of Schedule 2 to this Agreement.
2. “Anti-Corruption Guidelines” means the Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006.
3. “Cárdenas Agreement” means the agreement referred to in Section I.A.4 of Schedule 2 to this Agreement.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “CONAGUA” means *Comisión Nacional del Agua*, the Recipient’s National Water Commission, a deconcentrated administrative unit of SEMARNAT (as per Article 9 of the Recipient’s National Water Law (*Ley de Aguas Nacionales*) published in the Recipient’s Official Gazette on April 18, 2004.
6. “CONANP” means *Comisión Nacional de Areas Naturales Protegidas*, the Recipient’s National Commission for Natural Protected Areas, a deconcentrated entity within SEMARNAT.
7. “CONANP Agreement” means the agreement referred to in Section I.A.5 of Schedule 2 to this Agreement.
8. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
9. “*Contrato de Apoyo Financiero No Reembolsable*” means the agreement referred to in Section I.A.7 of Schedule 2 to this Agreement.
10. “Environmental Assessment” means each of the environmental assessments prepared for each of the Pilot Areas and referred to in Section I.B.5(d) of Schedule 2 to this Agreement.
11. “Environmental Management Framework” means the framework (included in the Operational Manual) for the Project dated March 11, 2010, that governs mandatory safeguards and mitigation actions for the Project which could possibly have a negative environmental impact such as, in particular, through use of any pesticides, increase in deforestation, pollution of groundwater, negative impacts

on endangered species, increased pesticide level in food, increased soil erosion, impacts on national parks and protected areas, and encroachment on natural habitats.

12. “IMTA” means *Instituto Mexicano de Tecnología del Agua*, the Recipient’s institute for water technology, a decentralized entity of SEMARNAT created pursuant to a Recipient’s Decree published in the Recipient’s Official Gazette on October 30, 2001.
13. “INE” means *Instituto Nacional de Ecología*, the Recipient’s National Ecology Institute, a deconcentrated entity within SEMARNAT.
14. “INE-IMTA-CONANP Agreement” means the agreement referred to in Section I.A.5 of Schedule 2 to this Agreement.
15. “Involuntary Resettlement” means the impact of: (i) 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, or (ii) an involuntary restriction of access to legally designated parks and protected areas (including reserves) which causes an adverse impact on the livelihoods of the displaced persons.
16. “NAFIN” means *Nacional Financiera, S.N.C.*, a Mexican development bank serving as the Recipient’s financial agent for purposes of the Grant.
17. “Official Gazette” means the Recipient’s official gazette (*Diario Oficial de la Federación*).
18. “Operational Manual” means the manual referred to in Section I.B.1 of Schedule 2 to this Agreement, dated March 11, 2010, as said manual may be amended from time to time with the Bank’s prior approval.
19. “Pilot Area” means any of the Tabasco Pilot Area, the Tamaulipas Pilot Area, the Sian Ka’an Pilot Area or the Veracruz Pilot Area and any additional or substitute area, selected in prior agreement with the Bank and after carrying out the relevant assessments required by Bank policy, and based on a detailed implementation plan satisfactory to the Bank, and “Pilot Areas” means all said Pilot Areas.



20. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
21. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated January 11, 2010 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
22. “SEMARNAT” means *Secretaría de Medio Ambiente y Recursos Naturales*, the Recipient’s Secretariat for the Environment and Natural Resources.
23. “SEMARNAT (INE)-IMTA Agreement” means the agreement referred in Section I.A.1 of Schedule 2 to this Agreement.
24. “SEPA” means the Bank’s publicly accessible Procurement Plans Execution System.
25. “SHCP” means “*Secretaría de Hacienda y Crédito Público*”, the Recipient’s Secretariat of Finance and Public Credit.
26. “Sian Ka’an Pilot Area” means the wetlands of the Sian Ka’an nature conservancy site, in the Recipient’s State of Quintana Roo, as the exact geographical coordinates of such Pilot Area are set forth in the Project’s Operational Manual.
27. “Signature Date” means the latest of the five dates on which the Bank and the Recipient (including SHCP and SEMARNAT), IMTA and NAFIN signed the Grant Agreement and such definition applies to all references to “the date of the Grant Agreement” in the Standard Conditions.
28. “Standard Conditions” means the Standard Conditions for Grants Made by the World Bank out of Various Funds, dated July 1, 2008.
29. “Subsidiary Agreement” means any of the SEMARNAT (INE)-IMTA Agreement, the Tampico Agreement, the Alvarado Agreement, the Cárdenas Agreement or the INE-IMTA-CONANP Agreement, and “Subsidiary Agreements” means all said agreements.
30. “Tabasco Pilot Area” means the wetlands of Carmen-Pajonal- Machona, in the Recipient’s State of Tabasco, as the exact geographical coordinates of such Pilot Area are set forth in the Project’s Operational Manual.

31. “Tamaulipas Pilot Area” means the wetlands Panuco-Altamira, in the Recipient’s State of Tamaulipas, as the exact geographical coordinates of such Pilot Area are set forth in the Project’s Operational Manual.
32. “Tampico Agreement” means the agreement referred to in Section I.A.2 of Schedule 2 to this Agreement.
33. “Veracruz Pilot Area” means the estuarine wetlands of the Papaloapan River and the Alvarado Lagoon, in the Recipient’s State of Veracruz, as the exact geographical coordinates of such Pilot Area are set forth in the Project’s Operational Manual.