

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF051612

Global Environment Facility Trust Fund Grant Agreement

(Introduction of Climate Friendly Measures in Transport Project)

among

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS S.N.C.

and

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

Dated December 13, 2002

GEF TRUST FUND GRANT NUMBER TF051612

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated December 13, 2002, among BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS, S.N.C. (the Recipient), UNITED MEXICAN STATES (UMS), and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to a fund (the GEF Trust Fund) by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, inter alia, established the GEF Trust Fund, authorized the first replenishment of the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution No. 94-2);

(C) the second replenishment of the GEF Trust Fund was approved on the basis set forth in Resolution No. 98-2 of July 14, 1998, of the Executive Directors of the Bank (Resolution No. 98-2);

(D) the UMS, as eligible recipient country for GEF grants as established in Section 9 (b) of the Instrument for the Establishment of the Restructured Global Environmental Facility approved under Resolution 94-2, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project): (i) has requested assistance from the resources of the GEF Trust Fund for funding the Project; (ii) has agreed that Banco Nacional de Obras y Servicios Públicos, S.N.C. be the recipient of this GEF Trust Fund Grant; and (iii) has agreed that the Recipient, and DF be the executors of this GEF Trust Fund Grant;

(E) DF and Edomex have signed an intention letter dated August 8, 2002 related to the Project and its implementation;

(F) UMS' request referred in Whereas (D) above has been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2 and is to be funded from the resources of the GEF Trust Fund; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend a grant (the GEF Trust Fund Grant) to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01 (a) The following provisions of the “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999), with the modifications set forth in paragraph (b) of this Section (the General Conditions), constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (1), (2), (3), (4), (5), (6), (7), (8), (9), (10), (14), (15), (16), (18) and (21), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Sections 4.01 and 4.06;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (g), (h), (i), (l), (m), (n), (o) and (p), 6.03, 6.04 and 6.06;
- (vii) Section 8.01 (b);
- (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
- (ix) Sections 10.01, 10.03 and 10.04;
- (x) Article XI; and
- (xi) Sections 12.01, 12.02, 12.03 and 12.04.

- (b) The General Conditions shall be modified as follows:
- (i) a new paragraph shall be added to the end of Section 2.01 to read as follows: “the term “Special Drawing Rights” and the symbol “SDR” mean special drawing rights as valued by the International Monetary Fund in accordance with its Articles of Agreement”;
 - (ii) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (6) and 6.02 (f) thereof and in Section 5.01 (a) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;
 - (iii) the term “Borrower”, wherever used in the General Conditions, means one and/or both of the Recipients;
 - (iv) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
 - (v) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
 - (vi) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account; and
 - (vii) a new subparagraph is added after subparagraph (p) in Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

- (a) “Advisory Board” means the board referred to in Section 3.03 (a) (v) of this Agreement;

(b) “Advisory Test Protocol Panel” means the panel referred to in Section 3.03 (a) (vi) of this Agreement;

(c) “DF” means the *Distrito Federal*, as referred to in Article 44 of UMS’ Constitution;

(d) “Edomex” means *Estado de México* as referred to in Article 43 of UMS’ Constitution;

(e) “FMR” means the financial monitoring report referred to in Section 4.02 (a) of this Agreement;

(f) “Implementation Letter” means the letter of even date herewith, from the Recipient and DF to the Bank, containing the indicators to be used in monitoring and evaluating the implementation of the Project;

(g) “Intention Letter” means the letter between DF and Edomex referred to in Whereas E of the preamble to this Agreement;

(h) “Metropolitan Area” means the DF and its surrounding areas within *Edomex*;

(i) “Operational Manual” means the manual referred to in Section 3.03 (a) (viii) of this Agreement;

(j) “PIU” means the unit referred to in Section 3.03 (a) (ii) of this Agreement;

(k) “SEMARNAT” means the UMS’ Environment and Natural Resources Secretariat (*Secretaría de Medio Ambiente y Recursos Naturales*) or any successor thereto satisfactory to the Bank;

(l) “SETRAVI” means the DF’s transport and roads secretariat (*Secretaría de Transporte y Vialidad*), or any successor thereto satisfactory to the Bank;

(m) “SHCP” means the UMS’ Secretariat of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) or any successor thereto satisfactory to the Bank;

(n) “SMA” means the DF’s environment secretariat (*Secretaría de Medio Ambiente*), or any successor thereto satisfactory to the Bank;

(o) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(p) “Subsidiary Agreement” means the agreement referred to in Section 3.03 of this Agreement; and

(q) “Technical Committee” means the committee referred to in Section 3.03 (a) (iii) of this Agreement.

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount in various currencies equivalent to four million four hundred thousand Special Drawing Rights (SDR 4,400,000).

Section 2.02. (a) The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, and services required for carrying out the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account in Banco de México on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008 or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement and, with the assistance of UMS – through SEMARNAT- and DF and the collaboration of Edomex, shall carry out the

Project with due diligence and efficiency and in conformity with appropriate administrative, financial, social and environmental standards and practices, as well as in conformity with the Operational Manual and the Implementation Letter.

(b) The Recipient shall provide, or cause to be provided, promptly as needed, the funds, facilities, services, and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) The Recipient shall enter into and comply with the terms of a subsidiary agreement with DF, satisfactory to the Bank, whereby:

DF shall agree to execute the Project through SMA with the assistance of the Recipient, UMS –through SEMARNAT- and the collaboration of Edomex, and, to that end, DF shall agree to:

- (i) comply with all the applicable provisions of this Agreement (including, *inter alia*, provisions related to general execution of the Project, as well as procurement and disbursement arrangements);
- (ii) establish and maintain throughout the course of Project implementation a Project implementation unit within SMA to coordinate SMA's carrying out of the Project, such unit to at all times: (A) be equipped and have sufficient resources to carry out its tasks; and (B) be conformed by members and staffed with personnel in numbers and with experience and qualifications proposed by the Technical Committee and satisfactory to the Bank (including a transport specialist, an environmental specialist and an administrative assistant);
- (iii) establish and maintain throughout the course of Project implementation a technical committee to, *inter alia*, guide and support the PIU in the implementation of the Project and coordinate the inputs of the agencies of UMS, Edomex and DF participating in the Project, such committee to at all times: (A) be equipped and have sufficient resources to carry out its tasks; (B) be composed by members with experience and qualifications satisfactory to the Bank including: one representative of SMA, a representative of SETRAVI, two representatives of Edomex, a

representative of UMS and a representative of Institute for World Environment and Resources Studies, Inc.;

- (iv) ensure that the decisions of the Technical Committee be taken by consensus, provided, however, that in the absence of such consensus, the representative of SMA shall decide on the relevant matter;
- (v) establish and maintain throughout the course of Project implementation an advisory board to advise the Technical Committee on technical, scientific and social matters related to the Project, such board to at all times: (A) be equipped and have sufficient resources to carry out its tasks as proposed by the Technical Committee and satisfactory to the Bank; and (B) be composed by members with experience and qualifications as proposed by the Technical Committee and satisfactory to the Bank;
- (vi) establish and maintain throughout the course of Project implementation an advisory test protocol panel to advise the Technical Committee on technical, scientific and social matters related to Part C of the Project, such panel to at all times: (A) be equipped and have sufficient resources to carry out its tasks as proposed by the Technical Committee and satisfactory to the Bank; and (B) be composed by members with experience and qualifications as proposed by the Technical Committee and satisfactory to the Bank;
- (vii) obtain from bus manufacturers and without payment the buses required for Part C of the Project;
- (viii) issue a manual, satisfactory to the Bank, setting forth specific rules and procedures for implementation of the Project (including guidelines for the operation of the Technical Committee, Advisory Board and Advisory Test Protocol Panel), which manual may be amended by DF from time to time with the approval of the Bank and over which, in case of any conflict between the terms of said manual and those of this Agreement, the terms of this Agreement shall prevail;
- (ix) take out and maintain with responsible insurers, or make other provisions satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practices;

- (x) comply with the obligations set forth in Sections 9.01, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating respectively to cooperation and information, insurance, use of goods and services, plans and schedules, records and reports, and maintenance); and
- (xi) collaborate with the Recipient and the Bank, and provide the Recipient with all relevant information and assistance for the Recipient to comply with its obligations under Section 3.04 (related to future operation of the Project), Section 3.05 (related to monitoring and evaluation of the Project) and Article IV of this Agreement;

(b) The Recipient shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such a manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the Grant. Except as the Bank may otherwise agree, the Recipient shall not amend or fail to enforce any provision of the Subsidiary Agreement. In case of any conflict between the terms of the Subsidiary Agreement and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient shall:

- (a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose among the Recipient and the Bank, a plan for the future operation of the Project; and
- (b) afford the Bank a reasonable opportunity to exchange views with the Recipient on the plan mentioned in paragraph (a) above.

Section 3.05. Throughout the course of Project implementation, and without limitation upon the provisions of Section 9.07 of the General Conditions, the Recipient shall:

- (a) maintain or cause to be maintained procedures adequate to enable monitoring and evaluation on an ongoing basis, in accordance with the indicators set forth in the Implementation Letter, of the carrying out of the Project and of the achievement of the objectives thereof;
- (b) furnish to the Bank, by no later than each February 15 and August 15 during Project implementation (beginning on the first such date falling at least four

months after the Effective Date), consolidated progress reports on Project implementation, in a format satisfactory to the Bank, which reports shall be based on the indicators referred to in paragraph (a) of this Section; and

(c) review with the Bank, on March 15 and September 15 of each year, the consolidated reports, referred to in paragraph (b) above, for such year's semesters and, as a consequence of such annual review, take all measures required to ensure the efficient continuation of the Project and the achievement of the objectives thereof, based on the contents of said consolidated reports and the Bank's views on the matter.

Section 3.06. (a) UMS, through SEMARNAT, shall appoint and maintain throughout the course of Project implementation a representative on the Technical Committee. UMS agrees that decisions of the Technical Committee shall be taken by consensus provided, however, that in the event of not reaching said consensus the decision shall be made by the representative of SMA.

(b) UMS shall not, either by action or inaction (or by action or inaction permit any federal sector public entity or parastatal to): (i) prevent or interfere with the Recipient's compliance with its obligations under this Agreement or under the Subsidiary Agreement; (ii) prevent or interfere with DF's compliance of its obligations under the Subsidiary Agreement; or (iii) prevent or interfere with Edomex's compliance of its obligations under the Intention Letter.

ARTICLE IV

Financial Conditions

Section 4.01. (a) The Recipient shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section, and the records and accounts for the Special Account, for each fiscal year audited, in accordance with generally accepted auditing standards and procedures consistently applied, by independent and qualified auditors;
- (ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of such year: (A) certified copies

of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in Article III of this Agreement, the Recipient shall prepare and furnish to the Bank a financial monitoring report, in form and substance acceptable to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the GEF Trust Fund Grant, and explains variances between the planned and actual uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

- (a) that UMS shall have failed to perform any of its obligations under this Agreement;
- (b) that DF shall have failed to perform any of its obligations under the Subsidiary Agreement;
- (c) that Edomex shall have failed to comply with the Intention Letter;
- (d) that, as determined by the Bank, Edomex shall have failed to collaborate actively in the execution of the Project through, *inter alia*: (i) the provision of relevant information to DF on environmental, transport and urban development issues; and (ii) Edomex's participation in the Technical Committee; and
- (e) that, as determined by the Bank, Edomex shall have interfered either by action or inaction (or by action or inaction shall have permitted any state sector public entity or parastatal to interfere) in the execution of the Project.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the GEF Trust Fund Grant within the meaning of Section 12.01 (c) of the General Conditions:

- (a) that the Operational Manual has been issued and put into effect;
- (b) that the PIU, the Technical Committee, the Advisory Board and the Advisory Test Protocol Panel have been established and are operational;
- (c) that the Subsidiary Agreement has been entered into by the Recipient and DF;
- (d) that DF's financial management system is fully operational as stated in the Bank's financial management assessment of DF's financial management system dated July 22, 2002;
- (e) that terms of reference (satisfactory to the Bank) for the auditors referred to in Sections 4.01 and 4.02 of this Agreement have been prepared by the Recipient through DF; and
- (f) that: (i) UMS has furnished to the Bank a legal opinion satisfactory to the Bank, of SEMARNAT counsel acceptable to the Bank, showing that, on behalf of UMS, this Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, UMS and is legally binding upon UMS in accordance with its terms; and (ii) DF and the Recipient have each furnished to the Bank a separate legal opinion satisfactory to the Bank, of counsel acceptable to the Bank, showing that, on behalf of DF and the Recipient, respectively, the Subsidiary Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, DF and the Recipient, respectively, and is legally binding upon DF and the Recipient, respectively, in accordance with its terms.

Section 6.02. The date March 13, 2003 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

ARTICLE VII

Representatives of UMS and the Recipient; Addresses

Section 7.01. The *Director General* of the Recipient is designated as representative of the Recipient, and the *Director General de Crédito Público* of UMS is designated as representative of UMS for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Banco Nacional de Obras y Servicios Públicos, S.N.C.
Tecoyotitla 100, Piso 3
Colonia Florida
01030 México, D.F.
México

Facsimile:

11-52-55-723-6291

Telex:

BNOSME 01772619
Mexico City

For UMS:

Dirección General de Crédito Público
Secretaría de Hacienda y Crédito Público
Palacio Nacional (piso 3), oficina 3010
Colonia Centro
06000 México, D.F.
México

Facsimile:

011-52-91-58-1156

Telex:

1777313-SHOCME

For the Bank:

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

Facsimile:

202-477-6391

Telex:

248423 (MCI)
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Mexico City, Mexico, as of the day and year first above written.

BANCO NACIONAL
DE OBRAS Y SERVICIOS PUBLICOS, S.N.C.

By /s/ Sergio Rodríguez Medrano
Authorized Representative

UNITED MEXICAN STATES

By /s/ Alonso García Tamés
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
as an implementing agency of the Global Environment
Facility

By /s/ Mark Hagerstrom
Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

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

<u>Category</u>	<u>Amount of the GEF Trust Fund Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	258,000	86%
(2) Consultants' Services	4,142,000	83% of local expenditures and 100% of foreign expenditures
TOTAL	<u>4,400,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient; and

(b) the term "local expenditures" means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient; provided, however, that if the currency of the Recipient is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures".

3. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for: (i) goods under contracts costing less than \$500,000 equivalent each; (ii) consulting services provided by firms under contracts costing less than \$100,000 equivalent each; and (iii) consulting services provided

by individuals under contracts costing less than \$50,000 equivalent each, under such terms and conditions as the Bank shall specify by notice to the Recipient.

4. If the Bank shall have determined at any time that any payment made from the GEF Trust Fund Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Bank, refund to the Bank for deposit into the GEF Trust Fund Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Bank.

SCHEDULE 2

Description of the Project

The objective of the Project is to develop policies, regulations and measures to make transport in the Metropolitan Area more efficient, less polluting and less carbon intensive than it is as of the date of this Agreement.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Bank may agree upon from time to time to achieve such objectives:

Part A: Harmonization of Air Quality and Related Strategies

1. Evaluation and harmonization of the plans prepared by DF and Edomex on environment, transport and urban development for the Metropolitan Area.
2. Design (based on the evaluation and harmonization of plans referred in Part A.1 above), implementation and monitoring of an integrated metropolitan climate change action plan for the Metropolitan Area, which shall include mitigation measures for the damages caused to the environment by, *inter alia*, industries, big energy consumers and transport activities.

Part B: Enabling Environment for Sustainable Transport Strategies

1. Preparation of the institutional framework required to integrate bus and metro transportation in the Metropolitan Area through: (a) the carrying out of an analysis of the institutional and commercial barriers to such integration; (b) the elaboration of a proposal for public transport (including metro) corridors in the Metropolitan Area; and (c) the design and carrying out of a survey to determine the spatial distribution of transport demands.
2. Carrying out of an analysis of the regulations applicable to public transport (including metro) operating in the public transport (including metro) corridors referred in Part B.1.(b) above.
3. Carrying out of an economic and financial assessment of business options for the public transport (including metro) corridors referred in Part B.1.(b) above.
4. Design of measures to promote metro ridership in the Metropolitan Area.
5. Carrying out of a plan for non-motorized transport in the Metropolitan Area including issuance of required regulations, identification of incentives, diagnosis of required infrastructure and implementation of promotion campaigns.

Part C: Test of Climate-Friendly High Capacity Vehicles

1. Carrying out of a comparative pilot field test for Metropolitan Area alternative bus and fuel technologies and modern and standard diesel vehicles measuring, inter alia, emissions, operating costs, and fuel efficiency.
2. Development of a scientific test protocol adapted to the Metropolitan Area that can produce significant data on emission reductions, fuel efficiency and operating and maintenance costs of transport systems.

Part D: Technical Assistance and Training

1. Carrying out of a review of the transport planning regulations of SETRAVI.
2. Carrying out of an analysis of costs, benefits and environmental impacts of current sustainable transport projects in the Metropolitan Area.
3. Development of methodologies for measurement and verification of emissions from Metropolitan Area public ground transport.
4. Provision of training to bus operators, mechanics and maintenance staff on the operation of the buses used in the pilot field test referred to in Part C.1 above.
5. Review and development of emission standards and transport regulations proposals to be applied in the Metropolitan Area.
6. Provision of training and support to SETRAVI's staff for contracting and coordinating market studies on the technology required for buses under Part C.1 above.
7. Training of officials and staff of UMS, Edomex, DF, companies that manufacture the buses required under Part C.1 above and transport operators, academics and NGOs on the climate change action plan referred in Part A.2 above.

Part E: Public Awareness and Dissemination Campaign

Carrying out of a public awareness and dissemination campaign on the advantages and benefits for the Metropolitan Area of using high capacity vehicles and non-motorized transport.

Part F: Project Management

Provision of technical assistance, training and material support to SMA and the PIU in order to assist in their Project implementation functions.

* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the UMS.

(c) Notification and Advertising

All invitations to bid shall be published in the UMS' public electronic advertising and bidding system (*COMPRANET*) and in the UMS's Official Gazette (*Diario Oficial de la Federación*).

Part C: Other Procurement Procedures

1. International and National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods procured following the procedures under Parts B of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services estimated to cost less than \$200,000 equivalent per contract up to an aggregate amount of \$1,780,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines up to an aggregate amount of \$2,360,000 shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 12 months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means the amount of \$560,000 (five hundred sixty thousand Dollars) to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$300,000 until the aggregate amount of withdrawals from the GEF Trust Fund Grant Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of \$450,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

(b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

- (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the GEF Trust Fund Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

- (b) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (c) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Recipient may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.