

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF056781

Global Environment Facility Grant Agreement

(Large-Scale Renewable Energy Development Project)

among

NACIONAL FINANCIERA 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 October 5, 2006

GEF TRUST FUND GRANT NUMBER TF056781

GLOBAL ENVIRONMENT FACILITY GRANT AGREEMENT

AGREEMENT (“Grant Agreement”) dated October 5, 2006, entered into among:

1. NACIONAL FINANCIERA, S.N.C. (“NAFIN”);
2. UNITED MEXICAN STATES (the “Recipient”) acting through its signatories on page 6; and
3. INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“World Bank”), acting as an implementing agency of the Global Environment Facility, established pursuant to Resolution No. 91-5 of March 14, 1991 and Resolution No. 94-2 of May 24, 1994 of the Executive Directors of the World Bank (“GEF”), for grant funds provided to the GEF Trust Fund by certain members of the World Bank as participants of the GEF. The Recipient, NAFIN and the World Bank hereby agree as follows:

**Article I
Standard Conditions; Definitions**

- 1.01. The Standard Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Grant Agreement have the meanings ascribed to them in the Standard Conditions and in the preamble and the Appendix to this Agreement.

**Article II
The Project**

- 2.01. The Recipient and NAFIN declare their commitment to the objectives of the project described in Schedule 1 to this Agreement (“Project”). To this end:
 - (i) the Recipient through SENER shall coordinate the execution of the Project as a whole and carry out its Respective Part of the Project in accordance with the provisions of the Subsidiary Agreement; and
 - (ii) the Recipient (through NAFIN) shall cause the Project Implementing Entity to carry out its Respective Part of the Project in accordance with the provisions of the Project Agreement and the Subsidiary Agreement and shall not take or permit to be taken any action which would prevent or

interfere with such performance;

all with the assistance of all relevant federal agencies and in accordance with the provisions of Article II of the Standard Conditions and with due regard to the mandates of UNFCCC and the Kyoto Protocol and the relevant decisions adopted by UNFCCC.

- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient, NAFIN and the World Bank shall otherwise agree, the Recipient and NAFIN 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 twenty five million Dollars (USD 25,000,000) ("Grant") to assist in financing the Project.
- 3.02. The Recipient (through NAFIN) may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

Article IV Remedies of the World Bank

- 4.01. The Additional Events of Suspension consist of the following:
- (a) The Recipient has taken or permitted to be taken any action which would prevent or interfere with the performance by the Project Implementing Entity of its obligations under the Project Agreement.
 - (b) The Project Implementing Entity has failed to perform any obligation under the Project Agreement or the Subsidiary Agreement.
 - (c) NAFIN has failed to perform any obligation under the Subsidiary Agreement.
 - (d) IBRD or IDA has declared the Project Implementing Entity ineligible to be awarded a contract financed by IBRD or IDA.
 - (e) As a result of events which have occurred after the date of the Grant Agreement an extraordinary situation has arisen which makes it improbable that the Project Implementing Entity will be able to perform

its obligations under the Project Agreement or Subsidiary Agreement.

- (f) A representation made by the Project Implementing Entity in or pursuant to the Project Agreement, or any representation or statement furnished by the Project Implementing Entity and intended to be relied upon by the World Bank in making the Grant, was incorrect in any material respect.
- (g) The Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
- (h) The World Bank has determined after the Effective Date that prior to such date but after the date of the Grant Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient's right to make withdrawals from the Grant Account if the Grant Agreement had been effective on the date such event occurred.
- (i) The Project Company has failed to design, construct, operate and maintain La Venta III in accordance with the Environmental and Social Impact Assessment and the Environmental and Social Management Plan or SEMARNAT has suspended or revoked any environmental permits granted by SEMARNAT for the La Venta III Project.

Article V

Effectiveness; Termination

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

- (a) The execution and delivery of: (i) the Grant Agreement on behalf of the Recipient and NAFIN; and (ii) the Project Agreement on behalf of the Project Implementing Entity have all been duly authorized or ratified by all necessary governmental and corporate action.
- (b) If the World Bank so requests, the condition of NAFIN and the Project Implementing Entity, as represented or warranted to the World Bank at the date of the Grant Agreement and the Project Agreement, has undergone no material adverse change after such date.
- (c) Each other condition specified below has occurred:
 - (i) the Subsidiary Agreement has been executed on behalf of the

Recipient (through SENER), NAFIN and the Project Implementing Entity;

- (ii) the Operational Manual has been issued and put into effect; and
- (iii) the Environmental Safeguards Manual and the Social Safeguards Manual has been issued and put into effect.

5.02. As part of the evidence to be furnished pursuant to Section 5.01 (a) and (c) (i) above, there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Recipient, showing the following matters:

- (a) on behalf of the Recipient and NAFIN, that the Grant Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms;
- (b) on behalf of the Project Implementing Entity, that the Project Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms; and
- (c) the Subsidiary Agreement has been duly authorized or ratified by the Recipient (through SENER), NAFIN and the Project Implementing Entity and is legally binding upon the Recipient (through SENER), NAFIN and the Project Implementing Entity in accordance with its terms.

5.03. Except as the Recipient and the World Bank shall otherwise agree, the Grant 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 ("Effective Date"). 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 the Grant Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this subparagraph until such event (or events) has (or have) ceased to exist.

5.04. The Grant Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date 90 days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section which later date typically may not extend more than eighteen (18) months after June 29, 2006 in which the World Bank approved the Grant. The World Bank shall promptly notify the Recipient of such later date.

Article VI
Representatives; Addresses

6.01. NAFIN's Representative is its *Director Internacional*.

6.02. NAFIN's Address is:

Nacional Financiera, S.N.C.
Dirección Internacional
Torre IV, piso 11
Insurgentes Sur 1971
01020 México, D.F.

Facsimile: 011-52-555325-6677 (Ext. 6929)

6.03. The Recipient's Representatives are its *Secretaría de Hacienda y Crédito Público* and its *Secretaría de Energía*.

6.04. The Recipient's Addresses are:

Unidad de Crédito Público
Palacio Nacional
Patio Central, Tercer Piso, Oficina 3010
Colonia Centro
06000 México, D.F.

Facsimile: 011-52-559158-1156

Secretaría de Energía
Secretario de Estado
Oficinas del C. Secretario
Insurgentes Sur # 890, Piso 17
Del Valle
03100 Benito Juarez

Facsimile: 011- 52-5000-6222/6054

6.05. The World Bank's Address is:

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

Cable Address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

1-202-477-6391

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

UNITED MEXICAN STATES

By /s/ Gerardo Rodríguez Regordosa

Authorized Representative
Secretaria de Hacienda y Crédito Público

By /s/ Fernando Canales Clariond

Authorized Representative
Secretaría de Energía

NACIONAL FINANCIERA, S.N.C.

By /s/ Timoteo Harris Howard

Authorized Representative

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

By /s/ Isabel Guerrero

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to reduce greenhouse gas emissions and remove barriers to the development of renewable energy technologies and markets in Mexico by: (i) developing initial experiences in commercially-based-grid-connected renewable energy applications as a result of supporting the construction of a wind farm; and (ii) building the institutional capacity to value, acquire, and manage such resources on a replicable basis.

The Project consists of the following parts:

Part 1: Financial Mechanism: Creating a mechanism for the provision of a GEF subsidy in the form of tariff price support to be paid to the successful bidder (the “Project Company”) of the international competitive IPP solicitation carried out by the Project Implementing Entity for the La Venta III Project, which mechanism shall have the following characteristics:

(a) The financial mechanism will be managed by the Project Implementing Entity and all Grant subsidy disbursements will be deposited in the Designated Account managed by NAFIN. The tariff price support payment will be made by NAFIN directly to the Project Company pursuant to a Power Purchase Agreement and upon receiving adequate instructions from the Project Implementing Entity and satisfactory evidence verifying that the Project Company has delivered wind energy to the grid, all as further detailed in the Subsidiary Agreement.

(b) The tariff price support will be applied as an additional fixed amount subsidy payment towards the purchase by the Project Implementing Entity from the Project Company of output power of the La Venta III wind farm for a period of five consecutive years from the actual commercial operation start up date. The tariff price support shall be determined as a fixed amount not to exceed 1.1 United States cents equivalent per KWh regardless of the contract price resulting from the international competitive bidding carried out by the Project Implementing Entity.

The design and guidelines for the operation of the financial mechanism are incorporated in the Operational Manual.

Part 2: Technical Assistance

(a) Supporting system-based least cost determination by:

(i) Developing operational guidelines which shall incorporate methodologies to interpret the Recipient’s least cost power acquisition constitutional mandate and carrying out a study to assess the value of energy diversification;

- (ii) developing operational guidelines which shall incorporate methodologies for the valuation of local and regional environmental and other externalities in power system resource valuation, planning and dispatch;
 - (iii) carrying out workshops and study tours to facilitate the exchange of experiences between the Project Implementing Entity and international electric utilities and research institutions on models and tools to analyze the value and emissions impact of intermittent renewable energy sources; and
 - (iv) providing technical assistance to analyze the impacts on system expansion of renewable sources and regular estimation of system marginal costs in order to develop reference prices for acquisition of renewable energy.
- (b) Integrating renewable energy in the Project Implementing Entity's system operations by:
 - (i) acquiring and installing software capabilities within CENACE (and providing the associated training) to support CENACE's decision-making process to dispatch intermittent facilities independently or in combination with non-intermittent resources;
 - (ii) acquiring and installing day-ahead wind forecast models (and providing the associated training) to optimize dispatch; and
 - (iii) Carrying out studies on load flow analysis and system stability.
- (c) Supporting project and business development by:
 - (i) developing standardized protocols and contract forms to be used by the Project Implementing Entity for the purchase of renewably generated power; and
 - (ii) strengthening SENER-UPI's capacity to serve as the one-stop shop for business development services for renewable energy project developers by: (A) training SENER-UPI's staff in marketing, technical aspects, regulatory framework, permitting, environmental and social impacts; and (B) increasing information, outreach and transaction support capacity by developing a website and other appropriate databases, as well as marketing documents for the development of renewable energy projects in Mexico.
- (d) Supporting tradable permit systems for green power and renewable energy by: carrying out studies to investigate the feasibility of cross-border trade of tradable renewable energy credits and developing a framework for trading activities that could be implemented in the future.

- (e) Providing technical assistance to assess the wind potential in Mexico by:
 - (i) Developing a national wind map based on available measurements and remote sensing data; and
 - (ii) Installing anemometers and measurement systems in areas of good wind potential throughout Mexico.
- (f) Developing a regional long-term wind development plan for the areas of high wind potential in the south of the Isthmus of Tehuantepec, State of Oaxaca, which shall incorporate the findings of the strategic environmental assessment defined in paragraph (g) below. The plan shall identify social impacts, existing land use regulations, transmission constraints and industrial development.
- (g) Preparing the strategic environmental assessment for the areas of high wind potential in the south of the Isthmus of Tehuantepec, State of Oaxaca identifying the appropriate level of wind energy development which an area is able to support without producing significant environmental damage, as well as those areas which are unsuitable and should be considered ineligible for wind development.

Part 3: Project Management

- (a) Strengthening SENER's management capacities by hiring a project manager, procurement assistant and as required, a renewable energy expert.
- (b) Strengthening SENER's capacity by hiring specialized consultants to conduct social, environmental and monitoring and evaluation assessments.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. **Subsidiary Agreement.**

1. To facilitate the carrying out of each of SENER's and the Project Implementing Entity's Respective Part of the Project, NAFIN in the name and on behalf of the Recipient, shall make part of the proceeds of the Grant available to SENER and the Project Implementing Entity under an agreement (*Contrato de apoyo financiero no reembolsable*; "Subsidiary Agreement") among NAFIN, SENER and the Project Implementing Entity, under terms and conditions approved by the World Bank and substantially similar to those contained in the model form contained in the Operational Manual, which shall include the following:

(a) NAFIN's agreement, acting as financial agent of the Recipient with regard to the Grant as designated in the Recipient's *Oficio No 305-094/2006* dated May 15, 2006, *inter alia*:

- (i) To represent the Recipient *vis-à-vis* the World Bank for the purposes of submitting Grant withdrawal applications to the World Bank, in form and substance satisfactory to the World Bank to justify disbursement by the World Bank to the Recipient of Grant proceeds; and
- (ii) to cooperate fully with the Project Implementing Entity and SENER by transferring the proceeds of the Grant to ensure that each, the Project Implementing Entity and SENER, is able to carry out its Respective Part of the Project and to comply in a timely manner with all of its obligations under this Agreement and the Project Agreement (as the case may be);

(b) The obligation by SENER to assume overall Project implementation responsibility and to coordinate the role and work of the Project Implementing Entity and any other institutions involved in the Project;

(c) the obligation of the parties to carry out their Respective Part of the Project in accordance with the Operational Manual, the Environmental Safeguards Manual and the Social Safeguards Manual; and

(d) The agreement on appropriate coordination mechanisms and procedures among the parties to ensure efficient and timely project implementation and reporting and adequate financial management.

2. The Recipient (through SENER) and NAFIN shall exercise their respective rights

under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, neither NAFIN nor the Recipient shall assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

B. Other.

1. The Recipient (through SENER) and NAFIN shall carry out the Project in accordance with an operational manual satisfactory to the World Bank (the Operational Manual), such manual to include, *inter alia*:

(a) The procedures for the carrying out, monitoring and evaluation of the Project (including the procurement requirements thereof);

(b) A detailed description of all aspects of Project financial management;

(c) The rules and procedures for the operation of the financial mechanism referred to in Part 1 of the Project;

(d) The requirements and conditions that need to be satisfied (including the delivery of adequate certificates) to cause NAFIN to make payments to the Project Company; and

(e) Model forms of the Subsidiary Agreement and the Power Purchase Agreement.

2. The Recipient through NAFIN and SENER shall ensure that the Project is carried out in accordance with environmental and social safeguards manuals satisfactory to the World Bank (the Environmental Safeguards Manual and the Social Safeguards Manual), such manuals to include, *inter alia*:

(a) The principles, criteria and procedures for carrying out environmental and social impact assessments and preparing environmental and social management plans for wind energy projects;

(b) specific requirements for avoiding and minimizing wildlife impacts from wind turbines in compliance with the applicable environmental and social requirements of the government of Mexico and the local authorities and relevant World Bank policies; and

(c) the specific mitigation and monitoring requirements and recommendations for La Venta III.

3. Except as the World Bank shall otherwise agree, the Recipient shall not amend, waive or fail to enforce the Operational Manual, the Environmental

Safeguards Manual and the Social Safeguards Manual or any provision thereof. In case of any conflict between the provisions of this Agreement and the Operational Manual or this Agreement and the Environmental Safeguards Manual and the Social Safeguards Manual, the provisions of this Agreement shall prevail. In case of any conflict between the provisions of the Operational Manual and the Environmental Safeguards Manual and the Social Safeguards Manual, the Environmental Safeguards Manual and the Social Safeguards Manual shall prevail.

4. The Recipient through SENER shall designate (and thereafter maintain during the execution of the Project) the unit (within the *Dirección General de Investigación, desarrollo tecnológico y medio ambiente*) responsible for the coordination and management of the Project, such unit to have a structure and functions satisfactory to the World Bank, and to have qualified staff in adequate numbers as required to carry out its responsibilities.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports.

1. (a) The Recipient (through SENER) shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the performance indicators set forth below in subparagraph (d) of this paragraph. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.
- (b) Each Project Report shall also include: (i) the financial reports referred to in Section II.B.2 below; (ii) a physical progress report; and (iii) procurement reports, all in accordance with the formats agreed with the World Bank.
- (c) The Recipient (through SENER) shall monitor and evaluate the progress of the Project and prepare a mid-term report not later than fifteen (15) months after the Effective Date, which shall cover among other things:
 - (i) progress in meeting the Project's objectives; and
 - (ii) overall performance measured against the performance indicators set forth in subparagraph (d) below.
- (d) The performance indicators referred to above in sub-paragraphs (a) and (c) herein consist of the following:
 - (i) increase of total amount per year of electricity supplied from renewable energy to the national system;

- (ii) increase of total installed renewable energy generation capacity;
 - (iii) reduction of emissions such as CO₂, NO_x, SO_x and particulates;
 - (iv) removal of policy and tariff barriers and definition of a clear policy, contractual and market framework for acquiring renewably generated power by the Project Implementing Entity;
 - (v) adoption of the Agreed Methodology for properly valuing renewable energy additions to the Project Implementing Entity system;
 - (vi) decline in the need for subsidies for renewable energy projects; and
 - (vii) successful avoidance of significant turbine-associated bird and bat mortality.
2. For purposes of Section 2.06 (d) of the Standard Conditions, the Recipient's Completion Report shall be furnished to the World Bank not later than June 30, 2014.

B. Financial Management, Financial Reports and Audits.

1. The Recipient (through SENER) shall maintain and cause NAFIN to maintain a financial management system in accordance with the provisions of Section 2.07 of the Standard Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient (through SENER) shall prepare and furnish to the World Bank as part of the Project Report interim un-audited financial reports for the Project covering the semester, in form and substance satisfactory to the World Bank.
3. The Recipient shall have or shall cause NAFIN to have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each 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 World Bank not later than four 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 Schedule.
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 Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works (including Non-Consultant Services)

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works (including non-consultant services) 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 (including non-consultant services). The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>	
(a)	CFE's International Competitive Bidding Procedures for purposes of procuring the installation and operation of La Venta III, to the extent they are acceptable to the World Bank for purposes of paragraph 3.13 (a) of the Procurement Guidelines;
(b)	National Competitive Bidding

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.

The short list of consultants to be selected in accordance with this Section III.C.1. for services estimated to cost less than five hundred thousand US Dollars (US\$500,000) equivalent per contract may comprise entirely national consultants, in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies 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.

Procurement Method
(a) <u>Least Cost Selection</u> : Services for assignments of a standard or routine nature where well-established practices and standards exist may be procured under contracts awarded in accordance with the provisions of paragraph 3.6 of the Consultant Guidelines <u>provided that</u> such services are estimated to cost less than one hundred thousand US Dollars (US \$100,000) equivalent per contract.
(b) <u>Individual Consultants</u> : Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 to 5.3 of the Consultant Guidelines.

D. Review by the World Bank of Procurement Decisions

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

E. Special Provisions

1. In addition and without limitation or restriction to any other provisions set forth in this Section or the Procurement Guidelines, the following provisions shall govern:
- (a) the Project Implementing Entity shall use Bidding Documents satisfactory to the World Bank;
 - (b) the invitation to bid for each contract shall be advertised in the Recipient's

public electronic advertising and bidding system (COMPRANET) and in the Recipient's Official Gazette (*Diario Oficial de la Federación*).

Section IV. Withdrawal of the Proceeds of the Grant

A. General.

1. The Recipient (through NAFIN) may withdraw the proceeds of the Grant in accordance with the provisions of Article III of the Standard Conditions and of this Section and such additional instructions as the World Bank shall specify by notice to the Recipient, to finance 100% of Eligible Expenditures.
2. The Recipient through NAFIN may withdraw the proceeds of the Grant in accordance with the provisions of this Section and such additional instructions as the World Bank may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 3 below.
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:

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed
(1) Subsidy under Part 1 of the Project	20,400,000	100%
(2) Goods under Part 2 (e) (ii) of the Project	500,000	100%
(3) Consultants' services (not including those considered to be Training and Operating Expenses):		
(A) for the Project Implementing Entity under Part 2 (a) (iii) and (iv), Part 2 (b), Part 2(c)(i) and Part 2(e) and (g) of the Project;	1,950,000	100%
(B) for SENER under Part 2(a)(i) and	1,850,000	100%

(ii), Part 2 (c) (ii), Part 2 (d) and (f), Part 3 (a) and (b) of the Project		
(4) Non-consultant services, including Training and Operating Expenses:		
(A) for the Project Implementing Entity under Part 2 (a) (iii) of the Project;	100,000	100%
(B) for SENER under and Part 2 (c)(ii)(A) and Part 3 (a) of the Project	200,000	100%
TOTAL AMOUNT	25,000,000	

For the purposes of this Schedule:

(a) the term “Operating Expenses” includes reasonable recurrent expenditures incurred by the Recipient (through SENER) and the Project Implementing Entity for rentals, maintenance, consumable materials and supplies and utilities (but excluding any salaries or personnel benefits), which would not have been incurred absent the Project;

(b) the term “Training” includes only: (i) fees of consultants employed as trainers; (ii) reasonable travel, room, board and *per diem* expenditures incurred by trainees in connection with their training; (iii) course fees charged by academic institutions; (iv) training facility rentals; (v) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph; and

(c) the term “Subsidy” means the tariff price support amounts (equal to no more than 1.1 United States cents per KWh) payable under the Power Purchase Agreement to the Project Company by the Project Implementing Entity through NAFIN for the delivery of wind energy to the grid under Part 1 of the Project, (which amounts represent part of the contracted cost for installation and operation of La Venta III).

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be

made:

(a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed two million five hundred thousand Dollars (USD 2,500,000) equivalent may be made for payments made prior to this date but on or after May 15, 2006, for Eligible Expenditures under Categories (2), (3) and (4);

(b) for payments covered by Category (1) above for the Subsidy unless: (i) the Project Implementing Entity or the Project Company (as the case may be) shall have entered into the relevant lease agreements with the owners of the land where the La Venta III will be located; (ii) the Ejido Assembly has approved the Ejido Lease Agreements; (iii) the Power Purchase Agreement is in form and substance satisfactory to the World Bank; and (iv) the Environmental and Social Impact Assessment and the Environmental and Social Management Plan have been approved by an independent party with qualifications and experience acceptable to the World Bank;

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2014.

APPENDIX

Section I. Definitions

1. “Agrarian Law” means the *Ley Agraria* published in the Recipient’s Official Gazette (*Diario Oficial de la Federación*) on February 26, 1992.
2. “Agreed Methodology” means the methodology for properly valuing renewable energy additions to the Project Implementing Entity’s system which recognizes: (i) full system short-run marginal cost; (ii) an estimate of the adjusted capacity contribution of the wind resources; and (iii) the energy portfolio diversification value.
3. “Bidding Documents” includes but is not limited to the invitation to bid, instructions to bidders, form of bid, form of contract, conditions of contract, specifications and drawings, relevant technical data (including the Regional Environmental Assessment and all relevant bird studies carried out by INECOL for La Venta region), delivery time or schedule of completions and necessary appendices such as formats for various securities, which package of materials is used by the Project Implementing Entity to obtain bids for the installation and operation of La Venta III.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “CENACE” means the Recipient’s National Dispatch Center (*Centro Nacional de Control de Energía*), the dispatch arm unit within the Project Implementing Entity established pursuant to the *Reglamento de Despacho y Operación del Sistema Eléctrico Nacional* and its successors and permitted assigns.
6. “CFE” means the Recipient’s Federal Commission of Electricity (*Comisión Federal de Electricidad*), a decentralized public statutory corporation established pursuant to the *Estatuto Orgánico de la Comisión Federal de Electricidad*, with its principal office located in Distrito Federal, Mexico and its successors and permitted assigns.
7. “CFE’s International Competitive Bidding Procedures” means the bidding procedures approved by the World Bank and set forth in the *Ley del Servicio Público de Energía Eléctrica*, published in the Recipient’s Official Gazette (*Diario Oficial de la Federación*) on December 22, 1975 and its *Reglamento* as amended to the date of this Agreement.
8. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004.

9. “*Dirección General de Investigación, Desarrollo Tecnológico y Medio Ambiente*” means the General Directorate for Research, Technology Development and Environment, a unit under the secretariat for Energy Planning and Technology Development within SENER pursuant to the *Reglamento Interior de la Secretaría de Energía* published on June 4, 2001 as amended on January 26, 2004.
10. “Effective Date” means the date referred to in Section 5.03 of this Agreement.
11. “Ejido” means the population of ejidos as described in Article 9 of the Agrarian Law.
12. “Ejido Assembly” means the assembly of the Ejido land owners and the maximum government authority for the ejido land owners as set forth in Article 22 of the Agrarian Law”.
13. “Ejido Lease Agreements” means the group of contracts (if any) entered into between the Project Implementing Entity or the Project Company (as the case may be) and relevant Ejido land owners setting the terms and conditions for the use of the land where the La Venta III will be constructed (if the La Venta III is constructed in Ejido land) including any additional land and easements needed to carry out transportation, storage or any other construction activities related to the La Venta III.
14. “Environmental and Social Impact Assessment” means the environmental and social impact assessment prepared for La Venta III by the Project Implementing Entity or the Project Company (as the case may be) pursuant to the Environmental Safeguards Manual and the Social Safeguards Manual.
15. “Environmental and Social Management Plan” means the environmental management plan prepared for La Venta III by the Project Implementing Entity or the Project Company (as the case may be) pursuant to the Environmental Safeguards Manual and the Social Safeguards Manual, which shall include: (1) a set of mitigation, monitoring and institutional measures to be taken during implementation and operation to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels; and (2) the actions needed to implement these measures, as said plan may be revised from time to time with the agreement of the World Bank.
16. “Environmental Safeguards Manual” means the environmental safeguards manual referred to in Section I.B.2 of Schedule 2 to this Agreement.
17. “IBRD” means International Bank for Reconstruction and Development as defined in Section 1.01 of the Standard Conditions.
18. “IDA” means International Development Association as defined in Section 1.01 of the Standard Conditions.

19. "INECOL" means the Ecology Institute (*Instituto de Ecología A.C.*), a civil association organized and existing pursuant to Article 2670 of the Federal Civil Code of the United Mexican States.
20. "IPP" means independent power producer.
21. "KWh" means Kilowatt-hour;
22. "Kyoto Protocol" means the protocol within the framework of the UNFCCC (as hereinafter defined), adopted by several world's nations in Kyoto, Japan on December 11, 1997, for the purposes of achieving the stabilization of atmospheric greenhouse gas concentrations at levels that would prevent dangerous anthropogenic (human-induced) interference.
23. "La Venta III Project" or "La Venta III" is the approximately 101 MW wind energy farm (and its associated interconnection system) to be designed, constructed, operated and maintained by the Project Company in the Optional Site or the Proposed Site (as the case may be) in the municipality of Juchitán de Zaragoza, in the state of Oaxaca, Mexico, whether completed or at any stage of construction.
24. "MW" means Megawatt.
25. "NAFIN" means *Nacional Financiera S.N.C.*, a Mexican development bank serving as financial agent of the Recipient for the purposes of the Grant.
26. "Operational Manual" means the manual referred to in Section I.B.1 of Schedule 2 to this Agreement.
27. "Optional Site" means the land, spaces, waterways, roads, water wells and any rights (including leases) acquired or to be acquired by the Project Implementing Entity for the purposes of La Venta III on, through, above or below the ground on which all or on any part of La Venta III is to be built including any working areas required by the Project Implementing Entity, where applicable.
28. "Power Purchase Agreement" means the agreement to be entered into by the Project Implementing Entity and the Project Company as referred to in Section I.5 of the Schedule of the Project Agreement.
29. "Procurement Guidelines" means the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the World Bank in May 2004.
30. "Procurement Plan" means the Recipient's procurement plan for the Project, dated May 19 2006 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.
31. "Project Agreement" means the agreement between the Project Implementing

Entity and the World Bank, of even date herewith, as the same may be amended from time to time.

32. “Project Company” means a private international wind developer that is the successful bidder of the international competitive bidding carried out by the Project Implementing Entity for the La Venta III Project.
33. “Project Implementing Entity” means CFE.
34. “Project Implementing Entity’s Legislation” means the Recipient’s Constitution, *Ley del Servicio Público de Energía Eléctrica, Reglamento de la Ley del Servicio Público de Energía Eléctrica, Estatuto Orgánico de la Comisión Federal de Electricidad*.
35. “Proposed Site” means the land, spaces, waterways, roads, water wells and any rights (including leases) acquired or to be acquired by the Project Company for the purposes of the La Venta III Project on, through, above or below the ground on which all or on any part of La Venta III Project is to be built including any working areas required by the successful bidder, where applicable.
36. “Regional Environmental Assessment” means the regional environmental assessment to be prepared by the Project Implementing Entity prior to issuing the invitation to bid for La Venta III identifying all the areas within the Polígono La Venta of the Optional Site which would be ineligible for wind farm development.
37. “Respective Part of the Project;” means, with respect to the Project Implementing Entity, Part 1 and Part 2 (a)(iii) and (iv), Part 2(b), Part 2(c)(i), Part 2 (e) and (g), and with respect to SENER, Part 2 (a) (i) and (ii), Part 2 (c)(ii), Part 2 (d) and (f) and Part 3.
38. “SEMARNAT” means the Recipient’s Environment and Natural Resources Secretariat (*Secretaría de Medio Ambiente y Recursos Naturales*) and its successors and permitted assigns.
39. “SENER” means the Recipient’s Secretariat of Energy (*Secretaría de Energía*) and its successors and permitted assigns.
40. “SENER-UI” means the *Unidad de Promoción de Inversiones* of SENER which shall be in charge of investment promotion activities within the Project and its successors and permitted assigns.
41. “Social Safeguards Manual” means the social safeguards manual referred to in Section I.B.2 of Schedule 2 to this Agreement.
42. “Standard Conditions” means the “Standard Conditions for Grants made by the World Bank out of Various Funds, dated March 22, 2006 and attached hereto as the Annex.

43. "Subsidiary Agreement" means the agreement among NAFIN, SENER and the Project Implementing Entity, satisfactory to the Bank, referred to in Section I.A.1 of Schedule 2 to this Agreement pursuant to which the Recipient through NAFIN shall make the proceeds of the Grant available to the Project Implementing Entity and SENER.
44. "UNFCCC" means the United Nations Framework Convention on Climate Change, adopted in New York on May 9, 1992.

Standard Conditions

**for
Grants
made by
the**

World Bank

**out of
Various Funds**

Dated March 22, 2006

ARTICLE I

Introductory Provisions

Section 1.01. *Application of Standard Conditions.* These standard conditions (“Standard Conditions”) set forth certain terms and conditions generally applicable to grants made by the International Bank for Reconstruction and Development (“IBRD”) and the International Development Association (“IDA”) (IBRD and IDA are individually and collectively referred to as the “World Bank”) out of various funds (other than IDA resources). They apply to the extent specified in the grant agreement providing for any such grant (“Grant”) between the World Bank and the party to which the Grant is extended (“Recipient”) (such grant agreement, together with all appendices, schedules, agreements supplemental and amendments, to it, as well as these Standard Conditions as applied to such agreement, is referred to as the “Grant Agreement”).

Section 1.02. *Inconsistency with Grant Agreement.* If any provision of the Grant Agreement is inconsistent with a provision of these Standard Conditions, the provision of the Grant Agreement shall govern.

Section 1.03. *Definitions.* Except as otherwise provided in the Grant Agreement, wherever capitalized terms are used in these Standard Conditions or in the Grant Agreement, they have the meanings ascribed to them in these Standard Conditions.

Section 1.04. *References; Headings.* References in these Standard Conditions to Articles and Sections are to the Articles and Sections of these Standard Conditions. Their headings are inserted in these Standard Conditions for reference only and shall not be taken into consideration in interpreting these Standard Conditions.

ARTICLE II

Project Execution

Section 2.01. *Project Execution Generally.* The Recipient shall:

(a) carry out the project described in the Grant Agreement (“Project”), or cause the Project to be carried out: (i) with due diligence and efficiency; (ii) in conformity with appropriate administrative, technical, financial, economic, environmental and social standards and practices; and (iii) in accordance with the provisions of the Grant Agreement and these Standard Conditions; and

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

Section 2.02. *Insurance.* The Recipient shall ensure that adequate provision is made for the insurance of any goods required for the Project and to be financed out of the proceeds of the Grant, against hazards incident to the acquisition, transportation and delivery of the goods to the place of their use or installation. Any indemnity for such insurance shall be payable in a freely usable currency to replace or repair such goods.

Section 2.03. *Land Acquisition.* The Recipient shall ensure that all action is taken to acquire as and when needed all land and rights to land that are required to carry out the Project and shall promptly furnish to the World Bank, upon its request, evidence satisfactory to the World Bank that such land and rights are available for the Project.

Section 2.04. *Use of Goods, Works and Services; Maintenance of Facilities.* The Recipient shall ensure that:

(a) except as the World Bank shall otherwise agree, all goods, works and services financed out of the proceeds of the Grant are used exclusively for the purposes of the Project; and

(b) all facilities relevant to the Project are at all times properly operated and maintained and all necessary repairs and renewals of such facilities are made promptly as needed.

Section 2.05. *Documents; Records.* The Recipient shall ensure that:

(a) all documents related to the Project are promptly furnished to the World Bank upon its request, in such detail as the World Bank shall reasonably request;

(b) records are maintained adequate to record the progress of the Project (including its cost and the benefits to be derived from it), to identify the goods, works and services financed out of the proceeds of the Grant and to disclose their use in the Project, and such records are furnished to the World Bank promptly upon its request;

(c) all records evidencing expenditures under the Project are retained until at least: (i) two years after the Closing Date (as defined below in Section 3.06 (c)); or (ii) if the World Bank requires audits of the Recipient's Financial Statements pursuant to Section 2.07 (b) below, the later of: (A) one year after the World Bank has received the audited Financial Statements covering the period during which the last withdrawal from the Grant Account was made (if the World Bank requires an audit of the Recipient's Financial Statements pursuant to the provisions of the Grant Agreement); and (ii) two years after the Closing Date; and

(d) the World Bank and its representatives are able to examine all records referred to above in (b) and (c), and are provided all such information concerning such records as they may from time to time reasonably request.

Section 2.06. *Project Monitoring and Evaluation.*

The Recipient shall:

(a) ensure the maintenance of policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the World Bank, the progress of the Project and the achievement of its objectives;

(b) ensure the preparation of periodic reports ("Project Report"), in form and substance satisfactory to the World Bank, integrating the results of such monitoring and evaluation activities and setting out measures recommended by the Recipient to ensure the continued efficient and effective execution of the Project, and to achieve the Project's objectives; each Project Report to cover the period specified in the Grant Agreement and to be furnished to the World Bank not later than the date specified for that purpose in the Grant Agreement;

(c) afford the World Bank a reasonable opportunity to exchange views with the Recipient on such report, and thereafter implement such recommended measures, taking into account the World Bank's views on the matter; and

(d) if so required by the World Bank in accordance with the provisions of the Grant Agreement, ensure the preparation of, and furnish to the World Bank not later than the date specified for that purpose in the Grant Agreement: (i) a report, of such scope and in such detail as the World Bank shall reasonably request, on the execution of the Project, the performance by the Recipient and the World Bank of their respective obligations under the Grant Agreement and the accomplishment of the purposes of the Grant; and (ii) a plan designed to ensure the sustainability of the Project's achievements ("Recipient's Completion Report").

Section 2.07. Financial Management; Financial Statements; Audits.

(a) The Recipient shall ensure the maintenance of a financial management system and preparation of financial statements ("Financial Statements") in accordance with consistently applied accounting standards acceptable to the World Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Project.

(b) If so required by the Bank in accordance with the provisions of the Grant Agreement, the Recipient shall: (i) have the Financial Statements periodically audited by independent auditors acceptable to the World Bank, in accordance with consistently applied auditing standards acceptable to the World Bank; and (ii) ensure that the Financial Statements, as so audited, are furnished to the World Bank not later than the date specified in the Grant Agreement for that purpose, together with such other information concerning the audited Financial Statements and such auditors, as the World Bank may from time to time reasonably request.

Section 2.08. Cooperation and Consultation. The Recipient and the World Bank shall cooperate fully to assure that the purposes of the Grant and the objectives of the Project will be accomplished, and to this end, throughout the implementation of the Project and for a period of ten years thereafter:

(a) from time to time, at the request of either of them, exchange views on the Project, the Grant, and the performance of their respective obligations under the Grant Agreement, and furnish to the other party all such information related to such matters as it shall reasonably request; and

(b) promptly inform the other party of any condition which interferes with, or threatens to interfere with, such matters.

Section 2.09. *Visits.* The Recipient shall, throughout the implementation of the Project and for a period of ten years thereafter:

(a) if it is the member of the World Bank in whose territory the Project is carried out or any of such member's political or administrative subdivisions ("Member Country"), enable the representatives of the World Bank to visit any part of its territory for purposes related to the Grant;

(b) if it is not the Member Country, take all measures required on its part to enable the World Bank to visit any part of the Member Country's territory for purposes related to the Grant; and

(c) in all cases enable the World Bank's representatives: (i) to visit any facilities and sites included in the Project; and (ii) to examine the goods financed out of the proceeds of the Grant for the Project, and any documents relevant to the performance of its obligations under the Grant Agreement.

ARTICLE III

Withdrawal of Grant Proceeds

Section 3.01. *Grant Account; Withdrawals Generally; Currency of Withdrawals.*

(a) The World Bank shall credit the amount of the Grant in the currency of denomination of the Grant to an account opened in its books in the name of the Recipient ("Grant Account"). The Recipient may from time to time request withdrawals of amounts of the Grant from the Grant Account in accordance with the provisions of the Grant Agreement and of these Standard Conditions.

(b) Withdrawals of the proceeds of the Grant from the Grant Account shall be made in the currency of denomination of the Grant. The World Bank may, at the request and acting as an agent of the Recipient, and on such terms and conditions as the World Bank shall determine, purchase with such currency withdrawn from the Grant Account such other currencies as the Recipient shall reasonably request to meet payments for Eligible Expenditures (as defined in Section 3.06). Whenever it shall be necessary for the purpose of the Grant Agreement or these Standard Conditions to determine the value of one currency in terms of another, such value shall be as reasonably determined by the World Bank.

Section 3.02. *Funding Shortfall.* Notwithstanding the provisions of Section 3.01, no withdrawals shall be made if, as a result of such withdrawal, the total amount of the Grant withdrawn from the Grant Account would exceed the amount available to the World Bank from resources provided to it for purposes of the Grant.

Section 3.03. *Special Commitment by the World Bank.* At the Recipient's request and on such terms and conditions as the Recipient and the World Bank shall agree, the World Bank may enter into special commitments in writing to pay amounts for Eligible Expenditures notwithstanding any subsequent suspension or cancellation of an amount of the Grant ("Special Commitment").

Section 3.04. *Applications; Supporting Evidence.*

(a) When the Recipient wishes to withdraw an amount from the Grant Account or to request the World Bank to enter into a Special Commitment, the Recipient shall deliver to the World Bank a written application for the purpose in such form and substance as the World Bank shall reasonably request ("Application").

(b) The Recipient shall furnish to the World Bank: (i) evidence satisfactory to the World Bank of the authority of the person or persons authorized to sign each Application and the authenticated specimen signature of each such person; and (ii) such documents and other evidence in support of each Application as the World Bank shall specify, whether before or after the World Bank has permitted any withdrawal requested in the Application ("Supporting Evidence").

(c) Each Application for an amount of the Grant, and its Supporting Evidence, must be sufficient in form and substance to satisfy the World Bank that the Recipient is entitled to withdraw such amount from the Grant Account, and that such amount will be used only for the purposes specified in the Grant Agreement. Applications shall be made promptly in relation to Eligible Expenditures.

(d) The World Bank shall pay the amounts withdrawn by the Recipient from the Grant Account only to, or on the order of, the Recipient.

Section 3.05. *Designated Accounts.*

(a) The Recipient may open and maintain one or more designated accounts into which the World Bank may, at the request of the Recipient, deposit amounts withdrawn from the Grant Account as advances for purposes of the Project ("Designated Accounts"). All Designated Accounts shall be opened in a financial institution acceptable to the World Bank, and on terms and conditions acceptable to the World Bank.

(b) Deposits into, and payments out of, any Designated Account shall be made in accordance with the Grant Agreement and these Standard Conditions and such

additional instructions as the World Bank may specify from time to time by notice to the Recipient. The World Bank may, in accordance with the Grant Agreement and such instructions, cease making deposits into any such account upon notice to the Recipient. In such case, the World Bank shall notify the Recipient of the procedures to be used for subsequent withdrawals from the Grant Account.

Section 3.06. *Eligible Expenditures.* The Recipient shall ensure that the proceeds of the Grant are used exclusively to finance expenditures which, except as otherwise provided in the Grant Agreement, satisfy the following requirements (“Eligible Expenditures”):

(a) the payment is for the reasonable cost of goods, works or services required for the Project, to be financed out of the proceeds of the Grant and procured, all in accordance with the provisions of the Grant Agreement;

(b) the payment is not prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(c) the payment: (i) is made on or after the date specified in the Grant Agreement for that purpose; and (ii) except as the World Bank may otherwise agree, is for expenditures incurred prior to the date specified in the Grant Agreement (or such later date as the World Bank shall establish by notice to the Recipient) after which the World Bank may, by notice to the Recipient, terminate the right of the Recipient to withdraw from the Grant Account (“Closing Date”).

Section 3.07. *Financing Taxes.*

(a) The Grant Agreement may specify that the proceeds of the Grant may not be withdrawn to pay for taxes, imposts, levies, fees or duties of any nature (“Taxes”) levied by, or in the territory of, the Member Country on or in respect of Eligible Expenditures, or on their importation, manufacture, procurement or supply. In such case, if the amount of any such Taxes decreases or increases, the World Bank may, by notice to the Recipient, adjust the percentage of such Eligible Expenditures to be financed out of the proceeds of the Grant specified in the Grant Agreement, as required to ensure consistency with such limitation on withdrawals.

(b) In the absence of such specification, the use of any proceeds of the Grant to pay for such Taxes is nevertheless subject to the World Bank’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the World Bank at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the World Bank may, by notice to the Recipient, adjust the percentage of such Eligible Expenditures to be financed out of the proceeds of the Grant specified in the Grant Agreement, as required to ensure consistency with such policy of the World Bank.

Section 3.08. *Reallocation.* If, in the World Bank’s opinion, the amount of the Grant allocated to a category of Eligible Expenditures under the Grant Agreement will be

insufficient to finance the expenditures under such category, the World Bank may, by notice to the Recipient:

(a) reallocate to such category any other amount of the Grant which in the World Bank's opinion is not needed for other Eligible Expenditures, to the extent required to meet the estimated shortfall; and

(b) if such reallocation will not fully meet the estimated shortfall, reduce the percentage of Eligible Expenditures to be financed under such category, in order that further withdrawals for such expenditures may continue until all such expenditures have been made.

ARTICLE IV

Cancellation; Suspension; Grant Refund

Section 4.01. *Cancellation by the Recipient.* The Recipient may, by notice to the World Bank, cancel any unwithdrawn amount of the Grant, except that the Recipient may not cancel any such amount that is subject to a Special Commitment.

Section 4.02. *Suspension by the World Bank.* The World Bank may, by notice to the Recipient, suspend the right of the Recipient to make withdrawals from the Grant Account if any of the following events occurs and is continuing. Such suspension shall continue until the World Bank has notified the Recipient that such right to make withdrawals has been restored.

(a) *Interference.* If the Grant has been made to a Recipient which is not the Member Country, the Member Country has (i) taken or permitted to be taken any action which would prevent or interfere with the execution of the Project or the performance by the Recipient of its obligations under the Grant Agreement; or (ii) failed to afford a reasonable opportunity for representatives of the World Bank to visit any part of its territory for purposes related to the Grant or the Project.

(b) *Performance Failure.* The Recipient has failed to perform any obligation under the Grant Agreement.

(c) *Cross Suspension.* IBRD or IDA has suspended in whole or in part the right of the Recipient (or of the Member Country, if the Recipient is not the Member Country) to make withdrawals under any agreement with IBRD or with IDA because of a failure by the Recipient (or by the Member Country) to perform any of its obligations under such agreement or any other agreement with IBRD or IDA.

(d) *Extraordinary Situation.* As a result of events which have occurred after the date of the Grant Agreement, an extraordinary situation has arisen which makes it improbable that the Project can be carried out or that the Recipient will be able to perform its obligations under the Grant Agreement.

(e) *Misrepresentation.* A representation made by the Recipient in or pursuant to the Grant Agreement, or any representation or statement furnished by the Recipient and intended to be relied upon by the World Bank in making the Grant, was incorrect in any material respect.

(f) *Assignment of Obligations; Disposition of Assets.* The Recipient (or any other entity responsible for implementing any part of the Project) has, without the consent of the World Bank: (i) assigned or transferred, in whole or in part, any of its obligations arising under or entered into pursuant to the Grant Agreement; or (ii) sold, leased, transferred, assigned, or otherwise disposed of any property or assets financed wholly or in part out of the proceeds of the Grant; provided, however, that the provisions of this paragraph shall not apply with respect to transactions in the ordinary course of business which, in the opinion of the World Bank: (A) do not materially and adversely affect the ability of the Recipient (or such other entity) to perform any of its obligations arising under or entered into pursuant to the Grant Agreement or to achieve the objectives of the Project; and (B) if the Grant has been made to a Recipient which is not the Member Country, do not materially and adversely affect the financial condition or operation of the Recipient (or such other entity).

(g) *Membership.* The Member Country: (i) has been suspended from membership in or ceased to be a member of IBRD or of IDA; or (ii) has ceased to be a member of the International Monetary Fund.

(h) *Condition of Recipient.* If the Grant has been made to a Recipient which is not the Member Country:

- (i) Any action has been taken for the dissolution, disestablishment or suspension of operations of the Recipient (or of any other entity responsible for implementing any part of the Project).
- (ii) The Recipient (or any other entity responsible for implementing any part of the Project) has ceased to exist in the same legal form as that prevailing as of the date of the Grant Agreement.
- (iii) In the opinion of the World Bank, the legal character, ownership or control of the Recipient (or of any other entity responsible for implementing any part of the Project) has changed from that prevailing as of the date of the Grant Agreement so as to materially and adversely affect the ability of the Recipient (or such other entity) to perform any of its obligations arising under or entered into pursuant to the Grant Agreement, or to achieve the objectives of the Project.

(i) *Additional Event.* Any other event specified in the Grant Agreement for the purposes of this Section has occurred ("Additional Event of Suspension").

Section 4.03. *Cancellation by the World Bank.* The World Bank may, by notice to the Recipient, terminate the right of the Recipient to make withdrawals with respect to an unwithdrawn amount of the Grant, and cancel such amount, if any of the following events occurs with respect to such amount:

(a) *Suspension.* The right of the Recipient to make withdrawals from the Grant Account has been suspended with respect to any amount of the Grant for a continuous period of thirty days.

(b) *Amounts not Required.* The World Bank determines, after consultation with the Recipient, that an amount of the Grant will not be required to finance Eligible Expenditures.

(c) *Misprocurement; Fraud and Corruption.* The World Bank: (i) determines, with respect to any contract to be financed out of the proceeds of the Grant, that (A) the procurement of such contract is inconsistent with the procedures set forth or referred to in the Grant Agreement; or (B) corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient (or the Member Country, if the Recipient is not the Member Country, or other recipient of the Grant proceeds) during the procurement or the execution of such contract, without the Recipient (or Member Country or other recipient of the Grant proceeds) having taken timely and appropriate action satisfactory to the World Bank to remedy the situation; and (ii) establishes the amount of expenditures under such contract which would otherwise have been eligible for financing out of the proceeds of the Grant.

(d) *Closing Date.* After the Closing Date, there remains an unwithdrawn amount of the Grant.

Section 4.04. *Amounts Subject to Special Commitment Unaffected.* No cancellation or suspension by the World Bank shall apply to amounts subject to any Special Commitment, except as expressly provided in the Special Commitment.

Section 4.05. *Grant Refund*

(a) If the World Bank determines that an amount of the Grant has been used in a manner inconsistent with the provisions of the Grant Agreement or these Standard Conditions, the Recipient shall, upon notice by the World Bank to the Recipient, promptly refund such amount to the World Bank. Such inconsistent use shall include, without limitation, use of such amount to: (i) make a payment for an expenditure that is not an Eligible Expenditure; or (ii) finance a contract during the procurement or execution of which corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Member Country or of the Recipient (or other recipient of such amount of the Grant), without the Member Country or the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the World Bank to remedy the situation.

(b) Except as the World Bank may otherwise determine, the World Bank shall cancel all amounts refunded pursuant to this Section.

Section 4.06. *Continued Effectiveness.* Notwithstanding any cancellation, suspension or refund under this Article, all the provisions of the Grant Agreement shall continue in full force and effect, except as specifically provided in these Standard Conditions.

ARTICLE V

Enforceability; Arbitration

Section 5.01. *Enforceability.* The rights and obligations of the Recipient and the World Bank under the Grant Agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any state or of any of its political subdivisions to the contrary. Neither the Recipient nor the World Bank shall be entitled in any proceeding under this Article to assert any claim that any provision of these Standard Conditions or of the Grant Agreement is invalid or unenforceable because of any provision of the Articles of Agreement of the World Bank.

Section 5.02. *Failure to Exercise Rights.* No delay in exercising, or omission to exercise, any right, power or remedy accruing to any party under the Grant Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default. No action of such party in respect of any default, or any acquiescence by it in any default, shall affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 5.03. *Arbitration.* Any controversy between the parties to the Grant Agreement and any claim by any such party against the other arising under the Grant Agreement which has not been settled by agreement of the parties shall be submitted to arbitration by an arbitral tribunal ("Arbitral Tribunal") as hereinafter provided.

(a) The parties to such arbitration shall be the World Bank on the one side and the Recipient on the other side.

(b) The Arbitral Tribunal shall consist of three arbitrators appointed as follows: (i) one arbitrator shall be appointed by the World Bank; (ii) a second arbitrator shall be appointed by the Recipient; and (iii) the third arbitrator ("Umpire") shall be appointed by agreement of the parties or, if they do not agree, by the President of the International Court of Justice or, failing appointment by said President, by the Secretary-General of the United Nations. If either side fails to appoint an arbitrator, such arbitrator shall be appointed by the Umpire. In case any arbitrator appointed in accordance with this Section resigns, dies or becomes unable to act, a successor arbitrator shall be appointed in the same manner as prescribed in this Section for the appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.

(c) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration, the nature of the relief sought and the name of the arbitrator appointed by the party instituting such proceeding. Within thirty days after such notice, the other party shall notify to the party instituting the proceeding the name of the arbitrator appointed by such other party.

(d) If within sixty days after the notice instituting the arbitration proceeding, the parties have not agreed upon an Umpire, either party may request the appointment of an Umpire as provided in paragraph (b) of this Section.

(e) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

(f) The Arbitral Tribunal shall decide all questions relating to its competence and shall, subject to the provisions of this Section and except as the parties shall otherwise agree, determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.

(g) The Arbitral Tribunal shall afford to the parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of the Arbitral Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to the Grant Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.

(h) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as are required for the conduct of the arbitration proceedings. If the parties do not agree on such amount before the Arbitral Tribunal convenes, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided between and borne equally by the parties. Any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs shall be determined by the Arbitral Tribunal.

(i) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the settlement of controversies between the parties to the Grant Agreement or of any claim by any such party against the other such party arising under the Grant Agreement.

(j) If, within thirty days after counterparts of the award have been delivered to the parties, the award has not been complied with, any party may: (i) enter judgment upon, or institute a proceeding to enforce, the award in any court of competent

jurisdiction against any other party; (ii) enforce such judgment by execution; or (iii) pursue any other appropriate remedy against such other party for the enforcement of the award and the provisions of the Grant Agreement. Notwithstanding the foregoing, if the Recipient is the Member Country, this Section shall not authorize any entry of judgment or enforcement of the award against the Recipient except as such procedure may be available otherwise than by reason of the provisions of this Section.

(k) Service of any notice or process in connection with any proceeding under this Section or in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 6.02. The parties to the Grant Agreement waive any and all other requirements for the service of any such notice or process.

ARTICLE VI

Termination; Miscellaneous

Section 6.01. *Termination.* The Grant Agreement and all obligations of the parties under it shall forthwith terminate when all such obligations have been fully performed.

Section 6.02. *Notices and Requests.* Any notice (or request) pursuant to the Grant Agreement shall be in writing. Such notice (or request) shall be deemed to have been duly given (or made) when it has been delivered by hand or by mail, telex or facsimile (or, if permitted under the Grant Agreement, by other electronic means) to the party to which such notice (or request) is directed (“Addressee”), at the address specified in the Grant Agreement for the purpose (or at such other address as the Addressee shall have designated by notice to the party giving such notice (or making such request)) (“Address”). Deliveries made by facsimile transmission shall also be confirmed by mail.

Section 6.03. *Action on Behalf of the Recipient.* The representative designated by the Recipient in the Grant Agreement, for the purpose of this Section (or any person authorized in writing by such representative for the purpose) (“Representative”), may take any action required or permitted to be taken pursuant to the Grant Agreement, and execute any documents required or permitted to be executed pursuant to the Grant Agreement on behalf of the Recipient.

Section 6.04. *Evidence of Authority.* The Recipient shall furnish to the World Bank: (a) sufficient evidence of the authority of the Representative; and (b) the authenticated specimen signature of the Representative.

Section 6.05. *Execution in Counterparts.* The Grant Agreement may be executed in several counterparts, each of which shall be an original.

Section 6.06. *Disclosure.* The World Bank may make the Grant Agreement and any information related to the Grant Agreement publicly available in accordance with its policy on disclosure of information, in effect from time to time.