

MEXICO

PROGRAM IN SUPPORT OF MEXICO'S CLIMATE CHANGE AGENDA - THIRD PROGRAMMATIC OPERATION

(ME-L1078)

LOAN PROPOSAL

This document was prepared by the project team consisting of David Wilk (INE/ECC), Project Team Leader; Dolores Barrientos (ECC/CME), Project Team Co-Leader; Alfred Grünwaldt (INE/ECC); Juan Carlos Pérez-Segnini (LEG/SGO); Gloria Coronel (CID/CME); and Raúl Lozano (CID/CME). Inder Hernán Rivera (CID/CME), Edna Miranda (CID/CME), and Juan Carlos Gómez (INE/ECC) also helped produce this document, with coordination from Juan Pablo Bonilla, Unit Chief (ECC).

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
A.	Background and rationale	1
B.	Program objectives and components	7
C.	Technical cooperation operations coordinated in support of the program.....	10
D.	Principal outcome indicators.....	11
II.	FINANCIAL STRUCTURE AND MAIN PROGRAM RISKS	11
A.	Financial instrument.....	11
B.	Coordination with other development agencies	12
C.	Social and environmental risks	12
D.	Other key issues and risks.....	12
III.	IMPLEMENTATION AND MANAGEMENT PLAN	13
A.	Summary of implementation arrangements.....	13
B.	Summary of arrangements for monitoring outcomes and impacts	13
IV.	POLICY LETTER	14

Annexes	
Annex I:	Summary Development Effectiveness Matrix (DEM)
Annex II:	Policy Matrix

Electronic Links	
Required	
1. Policy letter	http://idbdocs.iadb.org/wsdocs/getdocument.aspx?DOCNUM=35426241
2. Means of verification	http://idbdocs.iadb.org/wsdocs/getdocument.aspx?DOCNUM=35254334
3. Results matrix	http://idbdocs.iadb.org/wsdocs/getdocument.aspx?DOCNUM=35391165
4. Independent macroeconomic assessment	http://idbdocs.iadb.org/wsdocs/getdocument.aspx?DOCNUM=35255008
Optional	
1. Risk analysis	http://idbdocs.iadb.org/wsdocs/getdocument.aspx?DOCNUM=35391774
2. Evaluation and monitoring plan	http://idbdocs.iadb.org/wsdocs/getdocument.aspx?DOCNUM=35391725
3. Technical cooperation in support of the program	http://idbdocs.iadb.org/wsdocs/getdocument.aspx?DOCNUM=35391647
4. Comparison between the original commitments and those in the third operation of the PBL	http://idbdocs.iadb.org/wsdocs/getdocument.aspx?DOCNUM=35414131

ABBREVIATIONS

CDM	Clean development mechanism
CER	Certified emission reduction
CICC	Comisión Intersecretarial de Cambio Climático [Interdepartmental Commission on Climate Change]
CIF	Climate Investment Fund
CONUEE	Comisión Nacional para el Uso Eficiente de la Energía [National Commission for Efficient Energy Use]
COP	Conference of the Parties (UNFCCC)
CRE	Comisión Reguladora de Energía [Energy Sector Regulatory Commission]
CTF	Clean Technology Fund
DGICC	Dirección General de Investigación de Cambio Climático [Climate Change Research Bureau]
DGPCC	Dirección General de Políticas de Cambio Climático [SERMANAT Climate Change Policies Division]
GDP	Gross domestic product
GHG	Greenhouse gas
INE	Instituto Nacional de Ecología [National Ecology Institute]
LIBOR	London Interbank Offered Rate
MtCO ₂ e	Million tons of carbon dioxide equivalent
NAFIN	Nacional Financiera S.N.C.
PBL	Policy-based loan
PEACC	Planes Estatales de Acción frente al Cambio Climático [State Climate Change Action Plans]
PECC	Programa Especial de Cambio Climático [Special Climate Change Program]
PEMEX	Petróleos Mexicanos
PND	Plan Nacional de Desarrollo [National Development Plan]
SEGOB	Department of the Interior
SEMARNAT	Department of the Environment and Natural Resources
SHCP	Department of Finance
tCO ₂ e	Tons of carbon dioxide equivalent
UNFCCC	United Nations Framework Convention on Climate Change

PROJECT SUMMARY

MEXICO

PROGRAM IN SUPPORT OF MEXICO'S CLIMATE CHANGE AGENDA - THIRD PROGRAMMATIC OPERATION (ME-L1078)

Financial Terms and Conditions				
Borrower: United Mexican States			Amortization period:	20 years
			Grace period:	5 years
Executing agency: Department of the Environment and Natural Resources (SEMARNAT)			Disbursement period:	2 months
			Interest rate:	LIBOR
Source	Amount (US\$)	%	Inspection and supervision fee:	*
IDB (Ordinary Capital)	400 million	100	Credit fee:	*
Local	0	0	Currency:	**
Total	400 million	100		
Project at a glance				
Project objective and description: The financing aims to support progress in consolidating the institutional and operational framework underpinning Mexico's climate change agenda, by mainstreaming climate change considerations in public policy, as necessary, as well as to spur the implementation of tools and instruments necessary to mitigate the effects of climate change and adapt to it. The program objectives encompass: (i) macroeconomic stability; (ii) institutional framework; (iii) mitigation agenda; and (iv) adaptation agenda. In keeping with the arrangements defined in the first and second operations (loans 2047/OC-ME and 2186/OC-ME, respectively), this operation specifies commitments for the disbursement of this third and final operation.				
Special contractual clauses: Disbursement of resources from the single tranche is subject to fulfillment of policy reform measures or institutional changes agreed upon for the release of those funds, as established in Annex II (Policy Matrix). As a special condition precedent to disbursement of the single tranche, the borrower, SEMARNAT, and NAFIN will sign an agency execution agreement (see paragraph 3.1).				
Exceptions to Bank policies: None.				
Project consistent with country strategy: Yes [X] No []				
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []				
Procurement: N/A.				

* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

(**) United States dollars from the Single Currency Facility.

I. DESCRIPTION AND RESULTS MONITORING

A. Background and rationale

- 1.1 Macroeconomic and sector background. The Mexican economy is expected to grow by about 5.0% in 2010, following a sharp 6.5% contraction in 2009. Although the fiscal measures adopted by the authorities in late 2009 strengthened the sustainability of public finances in the medium term, these remain heavily reliant on oil revenues. Despite an increase in the public debt of 6.4 percentage points between 2007 and 2009, no debt sustainability problems are anticipated in the next few years. The annual inflation rate in September was 3.70%, slightly above the August figure, and higher than in December last year (3.57%). Private analysts are forecasting general annual inflation of 4.6% at the end of 2010, and expect the Central Bank (Banxico) to start tightening conditions between the second and third quarters of next year.
- 1.2 Despite the steep downturn that affected the country in 2009, Mexico's sound economic fundamentals and prudent policy framework mitigated the effects of the crisis and will enable the country to face potential risks going forward. The monetary authorities have signaled their intention to maintain an accommodating money policy as long as inflationary pressures allow. Fiscal policy has adhered to the Federal Budget and Financial Accountability Act, and steps have been taken to strengthen public finances in the medium term. Despite its macroeconomic achievements however, Mexico's low growth rates, compared to similar countries, require further progress to be made on the pending reform agenda, to strengthen economic competitiveness, increase productivity, promote access to financing, improve the coverage and quality of education, make labor markets more flexible, strengthen the justice system, simplify the tax system, and expand the tax base. According to the proposed Economic Program 2011, which is currently being debated in the National Congress, public-sector borrowing requirements in 2011 will be equivalent to 2.7% of GDP. This figure is based on a budget deficit of 0.3% of GDP, excluding investment by Petróleos Mexicanos (PEMEX). The public credit policy proposed to Congress caps domestic borrowing by the Mexican government at 340 billion pesos, and sets an external borrowing limit of US\$5 billion—US\$3 billion less than the amount approved in 2010.
- 1.3 Against this macroeconomic backdrop, the Mexican government has decided to continue with the third programmatic operation to support Mexico's climate change agenda, thereby continuing the commitments initially established in the first tranche of this operation. The first two operations in the program (loans 2047/OC-ME and 2186/OC-ME) set key institutional processes in motion, in terms of policy design and specific actions to help develop the climate change mitigation and adaptation agenda. In this third operation, Mexico will consolidate its efforts in the areas of institutional strengthening, mitigation, and adaptation at a critical juncture in its economic recovery, as well as major public policy proposals to achieve a sustainable energy mix. Moreover, as this proposed operation for US\$400 million

will disburse in the first quarter of 2011, it will contribute approximately 8.0% of the government's forecast external funding needs.

- 1.4 As part of the first and second operations of the program implemented by the Bank, Mexico developed an analytical framework to evaluate the impact of climate change on the economy. The study entitled *The Economics of Climate Change in Mexico* (Stern Mexico), completed in early 2009, has provided a suitable analytical base for establishing and developing new programs and public policies. The study found that the total cost of climate change for the Mexican economy will fluctuate between 4% and 15% of GDP by 2050. It indicates that the cost of inaction would be disproportionately higher (between four and eight times) than the cost of mitigation, given that the total costs of reducing CO₂ emissions would be in the range of 0.5% to 3.5% of GDP.
- 1.5 Progress in institutional development. Mexico has made marked progress in the institutional arena with respect to other developing countries. The creation of the Interdepartmental Commission on Climate Change (CICC) in 2005 established a framework for crosscutting cooperation with the Department of the Environment and Natural Resources (SEMARNAT), in which other relevant departments also participate. The Department of Finance (SHCP) joined as a permanent member in early 2009. The CICC has played a key role in coordinating, formulating, and implementing national climate change policies in federal government agencies and entities and, in general, in promoting and disseminating the development of programs and strategies in support of Mexico's commitments under the United Nations Framework Convention on Climate Change (UNFCCC). The Commission also played a leading role in formulating and preparing the Special Climate Change Program (PECC) 2009-2012, which sets specific mitigation and adaptation objectives and targets.¹ To enable the PECC to start operating and to monitor and control it, the SEMARNAT climate change bureau was upgraded to form the new Climate Change Policies Division (DGPCC), which coordinates crosscutting endeavors with federal entities to achieve the PECC's objectives and targets.
- 1.6 In addition, the National Ecology Institute (INE) continues to strengthen its functions, coordinating and supervising the preparation of Mexico's national communications with the UNFCCC. The most recent of these is the fourth National Communication issued in December 2009, in the framework of the 15th Conference of the Parties (COP 15).² It has also played a major role in building capacity in the Mexican states to prepare their individual Climate Change Action Plans

¹ The PECC was published in the Official Gazette of the Federation in August 2009.

² The United Nations Framework Convention on Climate Change is an international treaty arising from the United Nations Conference on Environment and Development held in 1992. Its aim is to stabilize greenhouse gas (GHG) concentrations in the atmosphere at a level that avoids dangerous interference with the climate system. Countries participating in the Convention have met every year since 1995 in the Conferences of the Parties (COP) framework, to analyze the progress of their actions.

(PEACCs),³ and in disseminating the results of studies through printed technical publications and portals on its website.

- 1.7 One of the innovations introduced by the new DGPCC during the review and consultation process for the PECC was the addition of a new section to the PECC, Visión de Largo Plazo [Long-term Approach], in which, in terms of mitigation, Mexico assumes the indicative goal or “aspirational” target of reducing emissions by 50% of 2000 volumes by 2050.⁴ This effort will require a fundamental transformation in the way Mexico produces, consumes, and uses energy; manages its natural resources; and develops and uses land.
- 1.8 Mexico’s subnational climate change agenda includes intensive strengthening of states in developing PEACCs. By applying the guidelines for implementing State Climate Change Action Plans developed by the INE, the Mexican states have developed state GHG emissions inventories and studies of vulnerability to hydrometeorological and climatic variations. These are essential for establishing baselines and mitigation and adaptation activities for integration into the PEACCs, as well as for the design and implementation of public policies at the state level. Thus far, PEACCs have been completed for the Federal District, Veracruz, and Nuevo León; and the plan for Puebla is scheduled for completion in 2010. In addition, PEACCs are currently being prepared for Chiapas, Durango, Coahuila and Nayarit; and some progress has been made on those for Guanajuato, Baja California, Mexico State, Sonora, Tamaulipas, and Michoacán. In addition, at least eight states are just starting to prepare PEACCs, including Yucatán and Tabasco, which are receiving support from the Bank in the form of technical cooperation for this purpose.
- 1.9 It has been shown that the absence of technical units specifically devoted to dealing with climate change at the subnational level makes its capacity for the design, execution, monitoring, and evaluation of mitigation and adaptation measures very limited. For this reason, the creation of Climate Change Offices within the structures of state environment departments (e.g. Michoacán) or sustainability departments, as a result of the merger of economic development and environment departments (as recently done in Nuevo León and Querétaro), as well as State Climate Change Committees in certain entities, are fundamental steps for progress on the climate change agenda at the subnational level.

³ State Climate Change Action Plans were designed as subnational strategies to facilitate the implementation of climate change actions and policies tailored to the requirements of the state in question, given its size and intermediate position in terms of government levels.

⁴ This target is based on a scenario of atmospheric concentrations of GHG stabilizing at a level of no more than 450 parts per million carbon dioxide equivalent (CO₂e), which according to the analysis and modeling is compatible with an average increase in surface temperature of between 2° and 3° Celsius and flexible convergence toward average global per capita emissions of 2.8 tons of CO₂e in 2050. The target is approximately 340 million tons of CO₂e.

- 1.10 Despite the significant progress made thus far, Mexico needs to consolidate its institutional strengths, not only in institutions that lead the climate change agenda such as SEMARNAT and INE, but also in roughly 30 federal government institutions that are currently heavily involved in implementing PECC policies, programs, and projects. There is also a need to promote the subnational agenda with public policy actions aimed at increasing institutional capacity in this field, and achieving regulatory progress at the local level to promote adequate implementation of mitigation and adaptation measures.
- 1.11 **Progress on the mitigation agenda.** Mexico has clearly made progress in developing and implementing its mitigation agenda, both in the analytical area and in establishing its policy actions and commitments. According to Mexico's Fourth National Communication to the UNFCCC, published by the government in December 2009, the National Greenhouse Gas Emissions Inventory for the period 1990-2006 (INEGEI 2006) is estimated at 711 million tons of CO₂ equivalent (tCO₂e). Under the updated emissions categories established in 2006 by the Intergovernmental Panel on Climate Change, Mexico's emissions sources are: energy (60.4% of the total), followed by waste material (14.4%), change of land use and forestry (9.9%), industrial processes (8.9%), and agriculture (6.4%). The sector shares are as follows: energy generation (20.95%), transport (20.33%), manufacturing and construction industry (7.98%), disposal of solid wastes in soil (7.56%), and wastewater treatment and management (6.77%).
- 1.12 Accounting for around 1.6% of total world GHG emissions, Mexico ranks 13th among polluting countries. The country's per capita emissions in 2006 amounted to 6.2 tCO₂e, including emissions generated by land use, land use change, and deforestation. These per capita emissions levels are well below the regional average (around 10 tCO₂e). From the GHG mitigation standpoint, as defined in the PECC, the objective is to decouple emissions increases from economic growth through increasingly more efficient energy generation and consumption patterns that depend less on burning fossil fuels.
- 1.13 With the PECC, Mexico established a target of reducing annual emissions by approximately 51 MtCO₂e by 2012, distributed mainly in the following sectors: energy generation (36%), agriculture, forestry, and other land uses (30%), energy use (23%), and waste disposal (11%). Full implementation of the PECC between 2009 and 2012 could result in total cumulative emissions reductions of approximately 129 MtCO₂e, or approximately 18% of Mexico's emissions in 2006. In the long run, the PECC identifies the sectors with the greatest potential for mitigation in the period 2008-2030 as energy (146 MtCO₂e including electric power generation and consumption; and oil and gas); industry (77 MtCO₂e which includes the consumption of fossil fuels and polluting industrial processes); and transport (51 MtCO₂e). The PECC has defined sector programs that pose major monitoring and evaluation challenges. Mexico needs to make progress in developing its technical and institutional capacity to incorporate climate change and environmental sustainability criteria into public policies in the medium and long

terms. In the short run, the government has called for the development of major projects through the PECC, including: the reinjection of sour gas in Cantarell; a sanitary landfill program; the promotion of renewable energy projects; incorporation of 2.95 million hectares under sustainable forest management; a pilot project of incentives to reduce emissions from deforestation and forest degradation (REDD+); operational efficiency in PEMEX; and multiple mitigation tasks in energy generation, energy efficiency and transport. These projects and programs require close monitoring and tracking in the context of the PECC crosscutting agenda.

- 1.14 One of the obstacles faced when implementing mitigation projects is the lack of financing. In late 2008 Mexico was the first country to submit an investment plan proposal to the Clean Technology Fund (CTF) of the Climate Investment Fund (CIF), a new international financing vehicle for channeling resources for GHG emissions abatement programs. This plan, which was approved in January 2009 with a 2009-2013 implementation horizon, is expected to provide for GHG reductions of approximately 95 MtCO₂e per year.⁵ As part of the plan, the Bank is channeling US\$250 million from CIF/CTF in structured operations under the credit facilities it manages in Mexico.
- 1.15 Although Mexico is ranked fourth in the world in number of projects registered with the Clean Development Mechanism (CDM) Executive Board under the Kyoto Protocol, with 122 projects; fifth in the world with respect to average expected certified emissions reductions (CERs), with an estimated 10.6 million per year; and fifth in the number of CERs issued, at 6.4 million per year, it has a well-below-potential share of international carbon markets, which are a valuable source of funding for mitigation programs. This is mainly due to the obstacles raised by lack of technical capacity to structure low-carbon projects, and poor participation by the financial sector in supporting these projects.
- 1.16 As the 2012 expiration of the CDM and its transformation for a subsequent period approaches, Mexico has adopted a proactive approach internationally. At the last United Nations Climate Change Conference in Poznan (COP 14), Mexico announced its commitment to reduce its emissions by 50% with respect to the base year 2000 by 2050; and it proposed setting up a “green fund”. In the context of bilateral relations between Mexico and the United States, the Presidents of the two countries agreed in April 2009 to establish the Bilateral Framework on Clean Energy and Climate Change.⁶ Mexico has taken a significant step toward

⁵ The CTF contribution to Mexico’s investment plan (US\$500 million) covers five specific programs: urban transportation, renewable energy, energy efficiency in public projects, and renewable energy and energy efficiency for the private sector. The IDB will prepare and coordinate renewable energy and energy efficiency projects, and will offer counterpart resources for both projects totaling an estimated US\$350 million in loans and US\$11.5 million in grants.

⁶ The bilateral framework will focus on renewable energy, energy efficiency, adaptation, market mechanisms, forestry and land use, green jobs, development of low-carbon-emission energy technologies, and capacity expansion.

establishing a regulatory framework to facilitate energy efficiency and renewable energy projects with public and private financing. Publication of the Sustainable Energy Use Act (LASE) and the Renewable Energy Use and Energy Transition Financing Act (LAERFTE) raises the need for effective operating regulations that promote the future development of large-scale energy efficiency and renewable energy programs in Mexico. Related to this new regulatory framework is the National Energy Strategy, which addresses the transition towards energy security, economic and productive efficiency, and environmental sustainability within 15 years (Visión 2024). In addition, it requires the identification of cost-effective areas of opportunity to increase energy efficiency in the medium and long terms as part of a National Sustainable Energy Use Program (PRONASE).

- 1.17 **Progress on the adaptation agenda.** Mexico has made significant progress in terms of national and subnational adaptation measures. It is currently integrating climate change considerations into Department of the Interior (SEGOB) natural disaster risk management programs, such as the programs administered by the National Disaster Prevention Center and the National Civil Protection System. The INE and the DGPCC have jointly established adaptation targets to be implemented under the PECC. These include specific actions in the area of comprehensive risk management; water resource management; impacts and adaptation in the area of agricultural production; vulnerability of land and coastal ecosystems; energy production, industry, and tourism; transportation and communications infrastructure.
- 1.18 One of the most notable aspects of Mexico's adaptation agenda is the coordination of specific state adaptation actions, particularly in states most vulnerable to extreme hydrometeorological events. The PEACCs promoted by SEMARNAT/INE and actively supported by the Bank and other international organizations provide a suitable platform for undertaking vulnerability studies at the state and local levels, and for promoting adaptation measures to reduce climate change vulnerability and risks (see paragraph 1.8 above). Despite this progress, SEMARNAT needs to channel this active process to help states define their mitigation and adaptation policies and tools, which could not be fully done while this third operation was being prepared.
- 1.19 **Program rationale and strategy:** The Program in Support of Mexico's Climate Change Agenda, which encompasses the first and second programmatic operations, as well as this third operation currently being prepared, has had a positive track record with regard to the coverage and depth of Mexican government actions on climate change. Evidence supporting this claim includes the following: (i) the process of preparing the program's operations established effective dialogue between the sector entities responsible for the climate change agenda (SEMARNAT), public finance (SHCP), and mitigation and adaptation measures; (ii) the program has been supported by the sound sector analysis conducted by the Mexican authorities as part of the National Strategy (ENACC), the PECC, and studies on the economics of climate change in Mexico; (iii) the commitments

established in the policy matrices of each of the operations have led to a process of compliance and verification within the established timeframes; (iv) the programmatic approach has facilitated the continuous and gradual building of management capacity and policy innovation, mitigating the risks associated with implementing policy actions; and (v) the Bank has sought to provide effective support for the development of the National Climate Change Agenda, and has endeavored to assist in fulfilling the commitments adopted in the program and will continue to support the agenda in Mexico after the program has ended, as a fundamental part of its Country Strategy (see Section C). During the preparation of this third programmatic operation, the three principal areas of commitments proposed for the second operation were reviewed, incorporating the advances made thus far and deepening the policy actions for this final operation.

B. Program objectives and components

- 1.20 The financing aims to support progress in consolidating the institutional and operational framework underpinning Mexico's climate change agenda, by mainstreaming climate change considerations in public policies, as necessary, as well as to spur implementation of tools and instruments necessary to mitigate the effects of climate change and adapt to it. The program objectives encompass: (i) macroeconomic stability; (ii) institutional framework; (iii) mitigation agenda; and (iv) adaptation agenda. This third operation completes the program defined on the basis of the first operation, which envisages a progression of innovative policy actions on climate change, through which the Mexican government will consolidate a regulatory framework and strengthen institutions to enable it to implement policy actions and fulfill national and international commitments. To illustrate the complete performance and continuity of the program, the policy matrix presented in this third operation (see Annex II) highlights the commitments already fulfilled in the first and second operations, as well as those for this third operation.
- 1.21 **Component 1 - Macroeconomic stability:** The objective of this component is to develop and maintain a macroeconomic setting consistent with program objectives and the sector policy letter. The targets include maintaining relatively low inflation and a balanced budget consistent with the Federal Budget and Fiscal Accountability Act, as well as supporting Mexican government actions to ensure sound functioning of credit markets.
- 1.22 **Component 2 - Institutional framework:** The objective of this component is to consolidate the institutional framework needed to implement the PECC through an approach focused on the different levels of government and the economic sectors relevant to the mitigation and adaptation agenda. In this regard, the operation will fulfill two specific objectives: (i) implement and monitor government commitments defined in the PECC, guaranteeing adequate coordination of the various sectors relevant in the mitigation and adaptation agenda; and (ii) consolidate the analytical and operational capacity of the institutions and technical staff related to the design and implementation of national and subnational climate change agendas.

- 1.23 *Support for the national climate change policy:* This support will be provided through measures aimed at: (a) implementing the PECC, which includes arrangements for monitoring and evaluating sector targets; (b) generating conclusions from the study of economic impacts in the country's productive sectors, and their use as a basic tool to deepen the analysis of actions aimed at achieving a low-carbon economy in the medium and long term; and (c) defining and adopting frameworks and methodologies to promote mitigation and adaptation measures at the sector and subnational levels.
- 1.24 The indicative commitments and triggers proposed for this third operation during the second operation have been fulfilled, including: (i) progress in executing the 2009-2012 Special Climate Change Program (PECC), which contains 105 objectives and 294 targets aligned with the National Development Plan (PND 2007-2012) in five public policy areas; (ii) adoption by the federal government of some recommendations from the study "*La Economía del Cambio Climático en México*" [The Economics of Climate Change in Mexico] in the design of the Long-term Approach section of the PECC; (iii) the development and implementation by INE of two additional sets of guidelines for preparing PEACCs, and an evaluation of the application of all the guidelines implemented by that agency; (iv) use of the guidelines for developing PEACCs in five additional states; and (v) the development and implementation by INE of a program to train research groups to develop PEACCs in the states through a web-based system.
- 1.25 *Institutional strengthening for implementation of the climate change policy:* This will be done by strengthening SEMARNAT, the priority sectors participating in the climate change agenda, development banks, and subnational agendas.
- 1.26 Overall, the indicative commitments and triggers proposed for this third operation during the second one have been fulfilled. These include: (i) the creation by SEMARNAT of a systematic process for monitoring and evaluating the actions and targets included in the PECC for mitigation, adaptation, and mainstreaming of public policy, which will make it possible to monitor progress in meeting the PECC targets. This process includes monitoring the 12 subcategories of reporting sectors; (ii) progress in the transition from the Climate Change Program Coordination Unit to the Climate Change Research Bureau (DGICC) within the INE, thus raising the area's profile in the civil service; and (iii) the creation of the Sustainable Projects Division (DPS) in NAFIN that transforms the Climate Change and Sustainable Projects Unit (UPSCC) into a division with greater institutional capacity to meet its objectives, as well as to make headway in its operations.
- 1.27 **Component 3 - Mitigation agenda:** The objective of this component is to facilitate access to new financial instruments supporting mitigation, develop a regulatory framework and sector agendas promoting emissions reduction through the development of energy efficiency and renewable energy projects; and promote participation in carbon markets. This will be done by building capacity to increase participation in carbon markets, promoting new financing schemes, and increasing participation by Mexican entities in promoting sustainable projects.

- 1.28 The indicative commitments and triggers proposed for this third operation have been fulfilled. These include: (i) implementation by SEMARNAT of a continuous process to promote the CDM and the updating of the monthly CDM project portfolio; (ii) the signing of cooperation agreements between the National Commission for Efficient Energy Use (CONUEE) and state energy commissions with the objective of expanding actions for energy savings and efficient energy use in the states; (iii) authorization by the Energy Sector Regulatory Commission (CRE) of power generation permits related to sustainable projects, which include renewable energy and energy efficiency, as a result of the regulatory reforms promoted by the government; (iv) authorization of at least one project to be financed with CIF/CTF resources on energy efficiency, renewable energy, and transportation; (v) entry into force of the regulations to the Sustainable Energy Use Act; (vi) entry into force of the regulations to the Renewable Energy Use and Energy Transition Financing Act and the Energy Transition Fund; (vii) preparation by SEMARNAT of GHG emission inventories in federal government buildings and public transport; (viii) approval by SEMARNAT of the procedures for certifying GHG inventory verification and validation agencies under ISO-14064; and (ix) strengthening skills to identify and evaluate new mitigation actions, by SEMARNAT, through a training system for the federal government on the use of methodologies to calculate GHG prevented, in the context of the PECC.
- 1.29 **Component 4 - Adaptation agenda:** The objective of the component is to use instruments to evaluate and reduce vulnerability to risks associated with climate change in priority sectors and specific regions in Mexico with a view to strengthening sustainable development at the national, state, and municipal level. The program to build capacities and strengths for observation, monitoring, and forecasting climate will continue, through training programs for federal, state, and local technical personnel, and implementation of pilot adaptation measures at the national and/or state level.
- 1.30 For this third operation, the four commitments and triggers proposed in the second operation's matrix have been fulfilled, including: (i) systemization by the INE of data on regional climate change scenarios for evaluating impacts and vulnerability, as well as strengthening of technical capacities through workshops for three technical research groups in the states, to apply these scenarios; (ii) implementation of and/or advising, by INE, on five additional replicable climate change adaptation activities and actions in priority sectors and regions that include planning, programming, and outreach programs and activities; (iii) monitoring by SEGOB's Natural Disaster Prevention Fund of the requests from the states and/or government entities, and of projects authorized and in execution on early warning programs in highly vulnerable states; and (iv) progress in implementing the National Civil Protection Program 2008-2012 of SEGOB's National Civil Protection System, which includes strengthening in the preparation, execution and steering of plans for relief and prevention of risks stemming from hydrometeorological phenomena.

C. Technical cooperation operations coordinated in support of the program

- 1.31 As part of its support for Mexico's climate change agenda, the Bank approved a series of technical-cooperation operations, the implementation of which aims to help achieve the commitments set in the program's policy matrix, and strengthen Mexico's medium- and long-term capacity to respond to climate change priorities. In terms of support for policy actions and institutional strengthening, one of the technical-cooperation operations that has already been completed and has facilitated progress in fulfilling the commitments was the preparation of the Study of the Economic Impacts of Climate Change in Mexico (ATN/MC-11033-ME). One group of technical-cooperation operations aims to strengthen the management capacity of federal authorities responsible for implementing the PECC (SEMARNAT, INE and SHCP), the capacity of the sector entities with greatest involvement in and responsibility for implementing the agenda (the Departments of Energy; Agriculture, Rural Development, Fisheries, and Food; and Social Development), and the capacity of certain states to design and produce their PEACCs (Tabasco and Yucatán) (ATN/MC-11399-ME, ATN/OC-11561-ME, ATN/MC-11384-ME and ATN/MC-11463-ME). Execution of these technical-cooperation operations was delayed, so the federal government and the states used their own resources which will later be replaced with the technical-cooperation proceeds, disbursements of which are scheduled to start in 2010.
- 1.32 To support the mitigation agenda, the Bank and other multilateral and development agencies (the German Agency for Technical Cooperation and the World Bank) are supporting technical studies by the CRE for the design of regulations under the Renewable Energy Use and Energy Transition Financing Act (through ATN/OC-11183-RG). CONUEE has completed the National Sustainable Energy Use Program (PRONASE) under ME-T1069. The Bank is also supporting the design and start of operations of the Fund for Sustainable Project Feasibility Studies administered by NAFIN (ATN/OC-11073-ME), which will fund technical studies and assessments to prepare energy efficiency and renewable energy projects. This will be accompanied by a new technical-cooperation operation using CTF funds (ME-T1168) to strengthen that institution's Climate Change and Sustainable Projects Unit. This includes a portfolio of projects that can be financed with Bank lines of credit (in the 2010-2011 portfolio) and resources from the CIF or CTF. The Bank is also facilitating the consolidation of national capacity to prepare CDM projects; and it is supporting development banks in Mexico in their analysis of the carbon potential of their lending portfolio, and identifying sectors with high mitigation potential (RG-T1557). To maintain support for the development of renewable energies in Mexico, the Bank is also mobilizing technical assistance resources from the CTF to design regulatory mechanisms for biomass and geothermal projects (ME-T1162 and ME-T1161, respectively); the study on the economic and social benefits of wind farm projects; and a community development plan for the Tehuantepec isthmus region of Oaxaca, which has greatest windfarm potential in the country.

- 1.33 The Bank is supporting the adaptation agenda through activities to strengthen technical capacity, including technical staff training, to conduct climate change vulnerability and impact studies using high-resolution data models of the climate system (under ATN/MC-11242-RG). In addition, funds from technical-cooperation operation RG-T1840 will be used to prepare a comprehensive coastal protection strategy for the states of the Gulf of Mexico. As to state activities in this area, resources from international funds such as the German Federal Ministry for the Environment's climate fund will support the final design and implementation of pilot adaptation measures to be selected during the PEACC preparation process.

D. Principal outcome indicators

- 1.34 The results matrix presents the outcome indicators, based directly on execution of the program components (see electronic link). As this is a programmatic operation, the outcomes of this third operation are duly coordinated with those of the first and second operations. Since the financing provides global budgetary support rather than funding for specific investment programs, the impacts of the operation will depend on various global, national, sector, and local factors and on the performance of institutions and instruments not financed with funds from this operation. There are also significant uncertainties with respect to Mexico's economic performance, energy prices, the carbon markets, and the post-Kyoto evolution of the CDM that depend on international negotiations in the framework of the COP 16 meeting to be held in Cancún in late 2010.
- 1.35 In light of the Bank's assistance in supervising and monitoring PECC targets, the reinforced capacities in SEMARNAT (the DGPPC and INE), the Department of Finance, and relevant sectors in the climate change agenda are expected to ensure effective monitoring of impact indicators, specifically through the PECC subsystem that was set up in the Mainstreaming Agenda Information System (SIAT) and implemented by the federal government in March 2009 to monitor the PECC targets. Levels of public and private expenditures for implementing the PECC must also be established and monitored, as well as the impact of those expenditures on the Mexican economy and sector performance.

II. FINANCIAL STRUCTURE AND MAIN PROGRAM RISKS

A. Financial instrument

- 2.1 The operation will be financed under a programmatic policy-based loan (PBL) based on the guidelines and directives established in the New Lending Framework (document GN-2200-13) and the guidelines for preparation and implementation of PBLs (document CS-3633). The third programmatic operation will use the same financing mechanism as in the first and second operations (loans 2047/OC-ME and 2186/OC-ME). The total financing for the operation will be US\$400 million, to be disbursed once the general and special conditions set out in the policy matrix (see Annex II) have been fulfilled. To illustrate the full performance and continuity of

the program, this matrix sets out the commitments fulfilled in the first and second operations, as well as the commitments of this third one.

- 2.2 This modality is considered the most suitable financing instrument for promoting Mexico's climate change agenda in the 2008-2010 period, as it combines flexible access to resources with a program of technical activities agreed for that period. The structure is justified because: (i) the proposed reforms are not immediate but require a sequential action plan to their completion, which corresponds to the tranches of the operation; and (ii) the deteriorating international economic situation in late 2008 and 2009, combined with potential demand for public spending to implement the climate change agenda, particularly the PECC, as identified for 2009 and 2010, means financing will be needed to maintain Mexico's fiscal and financial stability.

B. Coordination with other development agencies

- 2.3 Preparation of the operation involved information exchanges and coordination between different entities involved in Mexico's climate change agenda, particularly those geared toward specific outputs. For instance, the study entitled *The Economics of Climate Change in Mexico* received support from the United Kingdom's Department for International Development, and the IDB, and partially from the World Bank, and the Economic Commission for Latin America and the Caribbean; Mexico's climate investment plan was prepared jointly with the IDB, the World Bank, and the International Finance Corporation; and the states' PEACCs are financed with resources from various national and foreign sources.

C. Social and environmental risks

- 2.4 The reform framework that supports the operation is focused on reducing GHG emissions and vulnerability to the impacts of climate change in Mexico. It is not anticipated that there will be any significant direct or indirect harmful environmental impacts. In fact, the operation is expected to produce positive environmental impacts. As a programmatic policy-based loan, the operation is not subject to classification under directive B.13 of the Bank's Safeguard Policy.

D. Other key issues and risks

- 2.5 **Risk analysis.** The risks of this third operation are summarized in a risk analysis table (see optional links). One (moderate) risk associated with the operation is institutional. Given the crosscutting nature of the climate change agenda, it is essential to maintain strict coordination between the various sectors and government agencies. This risk will be mitigated by the Bank's support to SEMARNAT, particularly the new DGPPC and to the CICC Technical Secretariat (a unit of the DGPPC). Another (moderate) risk identified is the lack of budgetary incentives to ensure sector agency commitment to ambitious climate change targets. To address this risk, the Bank will support Mexico's access to existing international financial resources and carbon markets, and is preparing operations to mobilize counterpart resources to complement other financing sources such as Mexico's climate investment plan under the CIF and the Energy Transition Fund established

under the new Renewable Energy Use and Energy Transition Financing Act. It is also important to note that by hosting COP 16⁷ in Cancún in late 2010, the Mexican government has reinforced its participation in international negotiations and has played a leading role in forging international agreements setting new binding commitments on mitigation, adaptation, and financing and the transfer of clean technologies post-2012. This process has led to the design and implementation of measures and programs by the Mexican government that would otherwise have taken longer to materialize.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower is the United Mexican States. The executing agency will be SEMARNAT, with NAFIN as the borrower's financial agent. As a special condition precedent to disbursement of the single tranche, the borrower, SEMARNAT, and NAFIN will sign an agency execution agreement (contrato de mandato y ejecución) establishing the rights and obligations of the parties. SEMARNAT will assume technical responsibility for the operation and will coordinate the work of other entities as required to ensure the integrity of the policies and programs to be promoted. The SHCP and SEMARNAT will be the Bank's official contacts.
- 3.2 SEMARNAT will be responsible for: (i) delivering the reports and evidence of compliance with contractual conditions, the annual progress report, and any other reports required by the Bank; (ii) promoting actions to achieve the policy objectives established for the program; and (iii) compiling, filing, and delivering to the Bank all information, indicators, and parameters enabling the Mexican government and the Bank to monitor, measure, and evaluate program outcomes.

B. Summary of arrangements for monitoring outcomes and impacts

- 3.3 The project team will be responsible for the program's monitoring and evaluation plan for the fulfillment of conditions set out in the Policy Matrix. The borrower is responsible for compiling all information required in accordance with the Means of Verification Matrix.
- 3.4 A Project Completion Report (PCR) will be submitted within six months after fulfillment of the conditions required for disbursement of the last tranche, whether this be the third or floating tranche. The report will also evaluate the program's impact and the extent to which its expected results have been achieved.

⁷ In the first few days of December 2010, the 16th Conference of the Parties (COP 16) of the United Nations Framework Convention on Climate Change will be held in Cancún, Mexico, attended by delegates from the participating countries.

- 3.5 The borrower is responsible for compiling all data needed for monitoring and evaluation. The authorities will cover the costs of collecting and processing this information.

IV. POLICY LETTER

- 4.1 The Bank and the Mexican government have agreed on the macroeconomic and sector policies set forth in the policy letter presented for this third programmatic operation (see electronic link). The letter describes the main components of the government's strategy being implemented in the program action areas described in this document. No changes have been noted in the government's position on its climate change agenda for this third operation. On the contrary, it reflects continuity in the agenda and policy measures promoted by the President of the Republic and the most senior Finance Department and sector authorities.

Development Effectiveness Matrix Summary

Indicator	Score	Maximum Score
<i>I. Strategic Relevance</i>	Low-High	
1. IDB Strategic Development Objectives	4.3	10
Country Diversification	0.7	2
Corporate Initiatives	2.5	2.5
Harmonization and Alignment	1.1	3.5
Beneficiary Target Population	0.0	2
2. Country Strategy Development Objectives	6.4	10
Country Strategy Sector Diagnosis	6.0	6
Country Strategy sector objective & indicator	0.4	4
<i>II. Development Outcomes - Evaluability</i>	Satisfactory	
3. Evidence-based Assessment & Solution	9.3	10
4. Evaluation & Monitoring Plan	5.8	10
5. Cost-Benefit or Cost-Effectiveness	0.0	10
6. Risks & Mitigation Monitoring Matrix	7.5	10
<i>III. IDB's Role - Additionality</i>		
7. Additionality	10.0	10
Technical Assistance provided prior the project	3.0	3
Improvements in management of financial, procurement, monitoring or statistics internal controls	4.0	4
Improvements in environmental, health and labor performance	3.0	3

I. Strategic Relevance: This is a PBL in Mexico which is a country-group A country. The program builds on two previous PBLs and seeks to strengthen government capacity to undertake adaptation and mitigation actions and therefore is aligned with the Bank's corporate initiative on climate change. A diagnosis of the factors that impede Mexico from addressing climate change is provided.

II. Evaluability: The program identifies the problem to be solved and the diagnosis includes empirical evidence of the magnitude of problems. Impact, outcome and output indicators are provided and there is a monitoring and evaluation plan which uses a reflexive methodology. No economic assessment of the performance of the program is provided. Risks and mitigation measures have been identified but there are no metrics to monitor their implementation.

III. Additionality: The program has benefited from Technical Cooperation funds provided by the IDB and this should improve the performance of the program.

POLICY MATRIX
PROGRAM IN SUPPORT OF MEXICO’S CLIMATE CHANGE AGENDA -THIRD PROGRAMMATIC OPERATION
ME-L1078

OBJECTIVES	Commitments Fulfilled in the First Operation (2047/OC-ME)	Commitments Fulfilled in the Second Operation (2186/OC-ME)	Commitments of the Third Operation (ME-L1078)
I. General macroeconomic policy framework			
<i>Macroeconomic stability</i>	Macroeconomic framework consistent with program objectives and guidelines established in the sector policy letter.	Macroeconomic framework consistent with program objectives and guidelines established in the sector policy letter.	Macroeconomic framework consistent with program objectives and guidelines established in the sector policy letter.
II. Sector institutional framework			
<i>a. Support for the National Climate Change Policy</i>	<p>(i) Public consultations for review of the Special Climate Change Program (PECC) project;</p> <p>(ii) Initiation of study on economic impacts and costs of climate change on the Mexican economy and first status report; and</p> <p>(iii) Development and application of the Guidelines for Climate Change Action Plans at the subnational level, on the subject of mitigation and adaptation, with application in at least one state (Veracruz).</p>	<p>(i) Approval and entry into effect of the 2008-2012 PECC;</p> <p>(ii) Completion of study on economic impacts and costs of climate change on the Mexican economy;</p> <p>(iii) Utilization of INE guidelines in developing State Climate Change Action Plans (PEACCs) in 10 states.</p>	<p>(i) Progress in executing the 2009-2012 PECC, which contains 105 objectives and 294 targets aligned with the objectives of the 2007-2012 National Development Plan in five key public policy areas.</p> <p>(ii) Adoption by the federal government of some of the recommendations made in the study entitled, <i>The Economics of Climate Change in Mexico</i>, in the design of the Long-term Approach section of the PECC;</p> <p>(iii) Development and implementation by INE of two additional guidelines for preparing PEACCs; and an evaluation of the application of the set of guidelines implemented by that agency;</p> <p>(iv) Utilization of the guidelines in developing PEACCs in five additional states;</p> <p>(v) Development and implementation by INE of a training program for research groups responsible for PEACC development in the states, through a web-based system.</p>

OBJECTIVES	Commitments Fulfilled in the First Operation (2047/OC-ME)	Commitments Fulfilled in the Second Operation (2186/OC-ME)	Commitments of the Third Operation (ME-L1078)
<p><i>b. Institutional strengthening to implement the climate change policy</i></p>	<p>(i) Creation of the bureau responsible for promoting climate change policy in SEMARNAT;</p> <p>(ii) Formulation of a proposal to amend SEMARNAT's bylaws to change the bureau into an administrative unit; and</p> <p>(iii) Appointment of a permanent point person in each of the departments that make up the Interdepartmental Commission on Climate Change (CICC).</p>	<p>(i) Launch of the SEMARNAT Climate Change Policies Division (DGPCC);</p> <p>(ii) Publication of SEMARNAT Environmental Policy and Planning Subsecretariat Work Plan to promote sector mitigation and adaptation measures;</p> <p>(iii) Development of a system of outcome indicators to evaluate institutional performance, including indicators on performance and attainment of the PECC's 105 objectives and 294 targets;</p> <p>(iv) Inclusion of the Department of Finance (SHCP) as a permanent member of the CICC;</p> <p>(v) Transition from Climate Change Program Coordination Unit to the Climate Change Research Bureau (DGICC) within INE;</p> <p>(vi) Establishment of the Climate Change and Sustainable Projects Unit within Nacional Financiera (NAFIN).</p>	<p>(i) Creation by SEMARNAT of a systematic process to monitor and evaluate PECC actions and targets on mitigation, adaptation, and public policy mainstreaming, which will make it possible to monitor progress in meeting the PECC targets. This process includes monitoring of the 12 subcategories of reporting sectors;</p> <p>(ii) Progress in the transition from a Climate Change Program Coordination Unit to a Climate Change Research Bureau (DGICC) within the INE, thus elevating the status of climate change issues in the civil service;</p> <p>(iii) Creation of a Sustainable Projects Division (DPS) in NAFIN that transforms the Climate Change and Sustainable Projects Unit into an office with greater institutional capacity to meet its objectives, as well as to make headway in its operations.</p>

OBJECTIVES	Commitments Fulfilled in the First Operation (2047/OC-ME)	Commitments Fulfilled in the Second Operation (2186/OC-ME)	Commitments of the Third Operation (ME-L1078)
III. Mitigation agenda component			
<p><i>a. Promote the country's participation in carbon markets and financial instruments to reduce GHG emissions.</i></p>	<p>(i) Formulation of a proposal of support to evaluate the capacity to develop Clean Development Mechanism (CDM) projects, including the Mexican Carbon Fund and other federal agencies and academic centers;</p> <p>(ii) Layout of a portfolio of projects registered with the Kyoto Protocol's CDM Executive Board for the reduction of generation-related GHG emissions, energy savings and efficient use, and others;</p> <p>(iii) Implementation and promotion of energy efficiency actions in federal government buildings;</p> <p>(iv) Formulation of a proposal of support for Mexican development banks to create a Guarantee Fund or similar instrument to promote the financing of energy efficiency projects;</p> <p>(v) Formulation of a proposal to evaluate <i>institutional capacity for the selection of a validation entity</i> for projects that could reduce emissions; and</p> <p>(vi) Identification of regulatory actions and programs to mitigate GHGs in priority sectors.</p>	<p>(i) Comprehensive institutional capacity analysis to prepare CDM projects and institutional framework required to promote carbon markets in Mexico. The analysis is the initial step in institutional strengthening for the development of CDM projects;</p> <p>(ii) Update of CDM project portfolio, showing an increase of at least 15% in the number of projects registered with the CDM board with respect to the cumulative value to September 2008;</p> <p>(iii) Energy savings and energy efficiency actions in at least 11 states in 2008-2009 under the cooperation agreements between the Commission for Efficient Energy Use and the state energy commissions;</p> <p>(iv) Development of a support mechanism to prepare sustainable projects including renewable energy and energy efficiency;</p> <p>(v) Preparation and presentation of Mexico's investment plan under the Clean Technology Fund (CTF) of the Clean Investment Fund (CIF);</p> <p>(vi) Entry into force of the regulations governing sustainable energy use and progress in developing regulations and programs;</p> <p>(vii) Entry into force of the regulations governing renewable energy use and energy transition financing (LAERFTE) and progress in developing regulations and programs.</p>	<p>(i) Implementation by SEMARNAT of a continuous process to promote the CDM, and updating of the CDM projects portfolio;</p> <p>(ii) Signing of cooperation agreements between the Commission for Efficient Energy Use and the state energy commissions, with a view to expanding energy-saving actions and efficient energy use in the states;</p> <p>(iii) Authorization by the Energy Sector Regulatory Commission of electricity generating permits in sustainable projects that include renewable energy and energy efficiency, as a result of the regulatory reforms promoted by the federal government;</p> <p>(iv) Authorization of at least one energy efficiency, renewable energy, or transportation project to be financed with CTF/CIF resources;</p> <p>(v) Entry into force of the regulations to the Sustainable Energy Use Act;</p> <p>(vi) Entry into force of the Regulations to the Renewable Energy Use and Energy Transition Financing Act and the Energy Transition Fund;</p> <p>(vii) Preparation by SEMARNAT of the GHG emissions inventory in federal government buildings and public transport;</p> <p>(viii) Approval by SEMARNAT of procedures for certifying agencies that verify and validate GHG inventories under ISO-14064;</p> <p>(ix) Strengthening skills to identify and evaluate new mitigation actions, by SEMARNAT, through a training system for the federal government in the use of methodologies to calculate GHG prevented, under the PECC.</p>

OBJECTIVES	Commitments Fulfilled in the First Operation (2047/OC-ME)	Commitments Fulfilled in the Second Operation (2186/OC-ME)	Commitments of the Third Operation (ME-L1078)
IV. Adaptation agenda component			
<p><i>a. Promote instruments to evaluate and reduce vulnerability and risks associated with climate change</i></p>	<p>(i) Formulation of a proposal to conduct a diagnostic assessment of capacities, strengths, and needs, for the observation, monitoring, forecasting, and prevention of weather and climate phenomena, in the face of climate change and variability in Mexico;</p> <p>(ii) Preliminary identification of at least four replicable pilot climate change adaptation sites, with their impact indicators in priority sectors and regions.</p>	<p>(i) Institutional strengthening actions to prepare INE meteorologists in probability scenarios, including training to prepare INE personnel to transmit knowledge to state research centers;</p> <p>(ii) Design of 10 replicable climate change adaptation actions and activities in priority regions and sectors that could include planning, programming, and outreach activities and programs;</p> <p>(iii) Design of early warning systems in at least three states under meteorological and/or early warning systems programs administered by the Department of the Interior (SEGOB) through the Natural Disaster Prevention Fund;</p> <p>(iv) Implementation of the SEGOB 2008-2012 National Civil Protection Program in cooperation with state and local authorities, through the National Civil Protection System.</p>	<p>(i) Systemization by the INE of data on regional climate change scenarios for evaluating impacts and vulnerability, as well as strengthening of technical capacities through workshops for three technical research groups in the states, to apply these scenarios;</p> <p>(ii) Implementation of and/or advising, by INE, on five additional replicable climate change adaptation actions and activities in priority regions and sectors that include planning, programming, and outreach activities and programs;</p> <p>(iii) Monitoring by SEGOB's Natural Disaster Prevention Fund of the requests from the states and/or government entities, as well as projects authorized and in execution on early warning programs in highly vulnerable states;</p> <p>(iv) Progress in implementing the National Civil Protection Program 2008-2012 of SEGOB's National Civil Protection System, which includes strengthening in the preparation, execution, and steering of plans for relief and prevention of risks stemming from hydrometeorological phenomena.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/10

Mexico. Loan ____/OC-ME to the United Mexican States. Program in
Support of Mexico's Climate Change Agenda
Third Operation of the Programmatic PBL

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the United Mexican States, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program in support of Mexico's climate change agenda – third operation of the programmatic PBL. Such financing will be for the amount of up to US\$400,000,000 from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____)

LEG/SGO/CID/IDBDOCS#35413306
ME-L1078