SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MEXICO

CTF RENEWABLE ENERGY FINANCING FACILITY (CTF-REFF)

(ME-L1109)

LOAN PROPOSAL

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Electronic Links

MANDATORY

1. Monitoring and Evaluation Plan
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36280230
2. Environmental and Social Management Report (ESMR)
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36286360

OPTIONAL

1. Economic Analysis
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36289870
2. National Development Plan. Pillar 4. Environmental Sustainability (Climate Change)
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35921659
3. National Strategy on Climate Change. Mexico. Executive Summary
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35921670
4. Special Program for Climate Change 2009 – 2012. Mexico
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35921662
5. IDB Country Strategy with Mexico. November 2010 – December 2012 (GN-2595-1)
   http://www.iadb.org/en/countries/mexico/country-strategy,1078.html
6. The Clean Technology Fund (CTF)
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35921664
7. CTF Investment Plan for Mexico
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35938545
8. CTF Financing Products, Terms, and Review Procedures for Public Sector Operations
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35921666
9. Contingent Financing Program for Renewable Energy
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35921673
10. ME-T1161. Assessment of Geothermal Potential in Mexico
    http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35427375
11. ME-T1162. Feasibility of Biomass Cogeneration Projects in the Sugar Cane Industry in Mexico
    http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35427392

ABBREVIATIONS

CCLIP	Conditional Credit Line for Investment Projects
CDM	Clean Development Mechanism
CFC	Chlorofluorocarbons
CFE	Federal Electricity Commission
CIF	Climate Investment Fund
CRE	Energy Regulatory Commission
CTF	Clean Technology Fund
CTFIP	Clean Technology Fund Investment Plan
GCI-9	Ninth General Capital Increase
GHG	Greenhouse Gas
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IPP	Independent Power Producers
MDB	Multilateral Development Bank
MUSD	Million US Dollars
MW	Mega Watts
NAFIN	Nacional Financiera
PECC	Special Climate Change Program
RE	Renewable Energy
REFF	Renewable Energy Financing Facility
SCF	Strategic Climate Fund
SECCI	Sustainable Energy and Climate Change Initiative
SENER	Energy Secretariat
SME	Small and Medium Enterprises
TC	Technical Cooperation
TFC	Trust-Fund Committee
UNFCCC	United Nations Framework Convention on Climate Change
USD	US Dollars

PROJECT SUMMARY
MEXICO
CTF RENEWABLE ENERGY FINANCING FACILITY (CTF/REFF) (ME-L1109)

Financial Terms and Conditions

Borrower: Nacional Financiera S.N.C.
Executing Agency: Nacional Financiera S.N.C.
Guarantor : United Mexican States

Source	Amount (US$ million)		
IDB-Clean Technology Fund Trust-Fund	70	**Disbursement period:**	48 months
		CTF Service Charge:	0.75%
		MDB upfront fee:	0.25%
		Maturity:	20 years
Minimum counter-part funds from NAFIN	70	**Grace Period:**	10 years
IDB minimum co-financing	70	**Currency:**	US Dollar
Total (a minimum of)	210		

Project at a Glance

Project objective and description: The program goal is to contribute to Mexico's drive to increase the share of Renewable Energy (RE) sources in its overall generation and to reduce GHG emissions (see ¶1.30 and ¶1.31). This would be achieved by filling the existing financing gap for renewable energy projects through the provision to project developers of competitive loans and contingency credit lines to cover cash flow deficits during the life of the project. CTF concessional resources will leverage at least a similar amount from NAFIN's lending resources and from the existing CCLIP ME-X1010, hence combining for a total minimum amount of US$210 million. This financing facility is part of a multi pronged approach to help Mexico achieve over the medium to long term a low carbon growth path. The overarching strategy of the CTF for the Mexican energy sector (CTF Investment Plan) seeks to (i) establish a financing facility in a local infrastructure bank to leverage funds and scale up investment in wind and small hydro power plants; (ii) improve the regulatory environment in favor of REs; (iii) undertake a comprehensive assessment of opportunities for attracting carbon finance for the renewable energy and energy efficiency sector; (iv) support local renewable energy research centers for demonstration of technologies and (v) leveraging IDB loan/guarantee support to the private sector to facilitate implementation of RE projects.
Related operations: This facility is closely related to a number of TCs from the IDB-CTF Trust Fund (see List of related operations).

Special contractual conditions: Prior to the first disbursement of the program, the Executing Agency will provide evidence, to the Bank's satisfaction, of: (i) the formal designation of a Program Manager; and (ii) the entry into effect of the Operational Regulations agreed with the Bank. **Conditions of project execution:** (i) disbursement of CTF resources to NAFIN shall be contingent on the availability of IDB/CCLIP resources (see * below); and (ii) conditions for pari passu disbursements (see ¶3.4).

Special aspects: None.

Exceptions to Bank policies: None.

The project is in line with the country strategy: Yes [X] No [ ]

The project qualifies for: SEQ[ ] PTI [ ] Sector [ ] Geographic[ ] Headcount [ ]

* The share of IDB funds in the facility will consist of resources from the existing CCLIP X-1010. The first loan under it, ME-L1051, already contemplated RE projects as one of its goals, the other being the support of SMEs in the supply chain of PEMEX. NAFIN and SHCP have formally committed to request a second operation from the CCLIP if the funds from the current operation are not available (i.e. having been disbursed in support of the supply chain of PEMEX). The disbursement of CTF resources to NAFIN will be contingent on the availability of IDB/CCLIP resources. Under the envisaged disbursement schedule for ME-L1051 a second operation targeting RE projects is in fact included in the pipeline for approval in the first half of 2012.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and justification

1. The Mexican climate change policy

1.1 Mexico has submitted four National Communications to the United Nations Framework Convention on Climate Change (UNFCCC) establishing the National GHG Inventory, reporting on the first studies on Mexico's vulnerability to climate change and laying out future emission scenarios. According to its Fourth National Communication to the UNFCCC, Mexico emitted 715 million tons of carbon dioxide equivalent (Mt CO_2e) in 2006, of which almost 430 Mt CO_2e from combustion of fossil fuels. Mexico ranks thirteenth in the world based on total GHG emissions and is the second largest emitter in Latin America after Brazil. It accounts for 1.4% of global CO_2 emissions from fossil fuels, excluding other GHGs and land-use change and forestry. Mexico's CO_2 emissions have been growing steadily over the past 25 years.

1.2 The sources of Mexico's GHG emissions are energy generation (21%), transport (21%), forests and land-use change (10%), waste management (14%), manufacturing and construction (8%), industrial processes (9%), agriculture (6%), fugitive emissions (7%), and other uses (4%). Although the consumption of fossil fuels is expected to grow in the next decade, the economy became less carbon intensive in the period 1990 - 2002 due to a set of structural and policy changes, including the use of natural gas and the implementation of over 100 Clean Development Mechanism (CDM) projects.

1.3 Although Mexico is not mandated to limit or reduce its GHG emissions under the Kyoto Protocol, the country has firmly adopted the UNFCCC principle of "common but differentiated responsibilities" and pledged to reduce its GHG emissions voluntarily. At the 14th Session of the Conference of the Parties to the UNFCCC in December 2008, Mexico announced its goal of reducing its GHG emissions by 50% below 2002 levels by 2050.

1.4 Increasing the amount of power obtained from renewable energy[1] (RE) sources is one of the priorities established in Mexico's National Development Plan. As RE power generation contributes to both the diversification of the country's energy matrix and the mitigation of climate change, it is included in both its Energy Sector Program and its Special Climate Change Program (PECC).

1.5 From the energy security perspective, Mexico is an oil-exporting country, but it is an importer of natural gas and a number of oil products. Production from its main oil field (Cantarell) is declining, and the US Energy Information Administration forecasts that it will become a net oil importer by 2020. The increasing reliance on natural gas imports, combined with the volatility of fossil fuel prices in the

[1] For the purposes of this document, renewable energy excludes hydropower plants larger than 10MW.

international markets, has prompted the Energy Ministry (SENER) and the Federal Electricity Commission (CFE) to increase the share of domestic sources of RE in the country's energy matrix.

1.6 In terms of the Mexican Climate Change strategy, the PECC set forth the goal of reducing GHG emissions in 2050 to 340 Mt CO2e, or 50% of year 2002 level. Wind power represents a major development opportunity in the country, due to its generation potential, estimated at least at 33,000 MW, out of which 6,250MW are from excellent wind quality resources with speeds of more than 8.5m/s. (Tehuantepec Isthmus, State of Oaxaca). Besides wind power, other renewable energy sources have significant untapped potentials: small hydropower potential (less than 10 MW) is estimated at approximately 3,000 MW, unexploited potential of base-load geothermal energy is estimated at over 1,500 MW, and unexploited capacity for biomass is estimated at 9,000 MW. Solar energy potential is substantial, and its technologies (concentrated solar power and photovoltaic) are already competitive in some specific niches.

1.7 The current development of wind, small hydropower, and biomass projects in Mexico relies primarily on projects that fall into the self-supply modality, with consumers and generators (in different locations) as shareholders. The Regulatory Commission (CRE) has authorized RE self-supply projects with a combined capacity of 2,521MW (Dec 2010). A breakdown of the most important projects envisaged, by technology, is as follows (source CRE):

RE Source	Number of Projects	Authorized Capacity	Estimated Investment USD Millions
Hydros	9	159 MW	188
Mini Hydros (under 10 MW)	6	37 MW	40
Biogas	1	6 MW	5.7
Wind	16	1,928 MW	3,800
Bagasse	4	108 MW	130

1.8 Summing up, Mexico's energy matrix is characterized by a high dependence on fossil fuels, resulting in very high carbon emissions, although the country is endowed with world-class renewable energy resources, whose utilization offers the prospect of developing a commercially viable renewable energy industry in the medium to longer-term. Despite the high renewable resource potential and the associated co-benefits of increased energy security and economic competitiveness in green technologies, the Mexican renewable energy sector remains relatively untapped. Lack of policy and regulatory incentives, high entry costs for grid access and inappropriate financing options, are considerable barriers to investment.

2. The regulatory framework for RE generation

1.9 The current legal framework for the Mexican power sector falls short of providing RE developers with the degree of certainty necessary to adopt long term investment decisions and requires them to assume significant risks. Despite

progress over the past years this still amounts to a significant barrier for the development of renewable energy sources by the private sector.

1.10 Power generation plants can be owned and operated either by *Comisión Federal de Electricidad* (CFE, the public monopoly for power distribution) or by the private sector. Private sector projects fall in turn into three modalities: independent power producer (IPP, under a tender-based system), small producers (capacity under 30 MW), and self-suppliers. IPPs and small producers sell all the electricity they generate to CFE.

1.11 CFE has been investing in geothermal and wind power projects, either as utility-owner or through IPP contracts. The development of these projects has been slow on account of their capital-intensive nature, the requirement that any public sector investment generates a minimum 12% internal rate of return and the mandate that obliges CFE to minimize the cost of generation, which hampers environmentally sound investments.

1.12 The Renewable Energy Law enacted in 2008 sets favorable conditions for the development of RE small producers. However, the required complementary regulatory and programmatic mechanisms have not yet been fully developed. CFE's slow pace has led private power developers to favor the self-supply market, which allows a technological leader (a generator) and an energy-intensive manufacturing company (a consumer) to pool their capital resources and seek to finance the joint-venture. Self-supply projects take advantage of recent changes to the regulatory framework, which allow for an energy bank, firm capacity contribution recognition, reduced and simplified transmission charges and a transparent pricing system for sales on to the CFE. Developers still face, however, significant risks as they depend on the off-takers' credit qualifications, and as CFE's role as the backstop off-taker in cases of breach of contract by the off-taker lacks clarity. Summing up, despite positive steps, the legal and regulatory framework for private initiatives in the power generation sector still presents barriers for the development of RE generation projects.

1.13 The IDB, with its own resources and CTF funding, is helping Mexico to address still pending regulatory issues[2]. The PBL to Support Mexico's Climate Change Agenda was linked to the publication of the secondary regulations of the Renewable Energy Law, a condition that was fulfilled. Moreover, CTF financed the regulatory studies behind some of the aforementioned improvements in the existing RE framework. Additional studies financed in the field of geothermal energy and cogeneration from biomass, should be available by the end of 2011

[2] Policy Based Loan (PBL) to Support Mexico's Climate Change Agenda (2186/OC-ME) for US$400 million; Regulatory Studies for CRE (ATN/OC-11183-RG), Geothermal Potential Evaluation (ATN/TC-12469-ME), Macroeconomic Impacts of the Wind Industry in Mexico (ME-T1164), Feasibility Study of Cogeneration from Sugar Cane Bagasse (ATN/TC-12466-ME), most of them fully disbursed and executed.

providing CRE with recommendations and regulatory adjustments needed to scale up these two industries.

3. The Clean Technology Fund

1.14 The Climate Investment Funds (CIF) are a collaborative effort among the Multilateral Development Banks (MDBs) and countries to bridge the financing and learning gap between now and a post-2012 global climate change agreement. The CIFs are governed by a balanced representation of donors and recipient countries, with active observers from the UN, the Global Environment Facility (GEF), civil society, indigenous peoples and the private sector. Through the establishment of the CIF in 2008, 14 advanced economies acknowledged the urgent need of help to scale-up investment in activities to tackle climate change as one of the main conclusions of the United Nations Framework Convention on Climate Change.

1.15 The CIFs are composed of two international funds: the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). As of 31 January 2010, contributors had pledged US$6.9 billion to these funds for the next three to four years, with US$4.4 billion for the CTF and US$2.5 billion for the SCF.

1.16 Through the Clean Technology Fund (CTF), countries, the MDBs, and other partners agree upon country investment plans to provide scaled-up financing for public and private sector projects that contribute to the demonstration, deployment, and transfer of low-carbon technologies with significant potential for GHG emission reductions. Investments for the promotion of: (i) renewable energy; (ii) sustainable transport; and (iii) energy efficiency are eligible under the CTF.[3]

1.17 The CTF is governed by a Trust-Fund Committee (TFC), with representatives of the donors and the recipient countries. The World Bank is the Trustee of the funds and hosts the administrative unit. CTF financing is channeled through five MDBs, including the IDB, which was designated Implementing Entity on June 8, 2010. The MDBs participate in the governance of the funds through the MDB Committee.

1.18 Mexico's CTF Investment Plan was presented by the Government of Mexico to the CTF for approval, and endorsed by the CTF TFC on January 27, 2009. The CTF IP is a "business plan" agreed among, and owned, by the Government of Mexico for the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB) and the International Finance Corporation (IFC) to provide support for the low-carbon objectives contained in Mexico's 2007-2012 National Development Plan, its National Climate Change

[3] The Strategic Climate Fund (SCF) serves as an overarching fund to support targeted programs with dedicated funding to pilot new approaches with potential for scaled-up, transformational action aimed at a specific climate change challenge or sector response (forests, Low Income Countries and climate resilience).

Strategy and Special Climate Change Program. The multi-year business plan outlines the strategy, sectors, and objectives to be implemented and co-financed by the IDB and the World Bank Group. The IP includes US$125 million of concessional CTF resources for IDB RE programs. A first IDB RE program, approved in November 2009, included US$50 million for financing private sector projects, as well as a number of technical assistance activities. The first private project to be partly financed with a $30 million contribution from the program was the EURUS wind farm, a 250.5MW capacity installation that is the largest operating wind farm in Latin America.

1.19 As an implementing agency, CTF resources are transferred to the IDB under a Financial Procedures Agreement and are administered by the IDB in a trust fund created at the IDB (IDB CTF Trust Fund).

4. Problem's description and how it will be addressed by the program

1.20 The CTF IP for Mexico correctly identifies access to financing as a significant barrier to renewable energy investments, due to the following sector specific factors: (i) the high initial investment cost; (ii) the banks' apprehension to develop new or unproven business/products lines, linked to the lack of relevant expertise to analyze and structure energy projects with weak credit and/or unfamiliar risk profiles of potential clients (e.g., energy users or generators) and; (iii) the lack of regulatory incentives. All these factors have resulted in the lack of adequate financial instruments to support renewable energy projects, which translates into relatively high transaction costs and high interest rates or excessive requests for collateral.

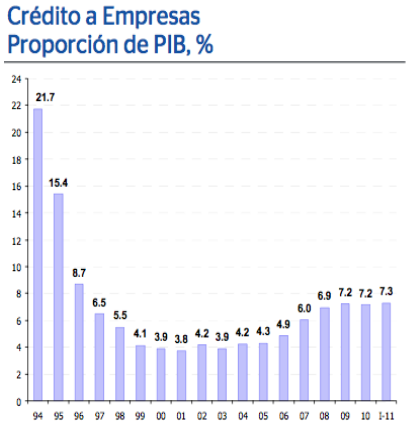
1.21 Privately managed RE power plants in the Mexican regulatory framework are authorized under the figure of the independent producer or auto generators. Developments so far have mainly consisted of consumer/producer partnerships under the latter's regulatory license. Banks assess the creditworthiness of both the technological partner and the end consumer when analyzing the risk involved in these project finance operations. Some resident foreign banks have been active in financing wind power plants, seemingly on account of their matrix' business ties with the partners in the development (Bancomer, Santander, Citibank) but, as stated above, the rhythm and scale of RE investments would vastly improve if financial resources at competitive rates were made available to developers.

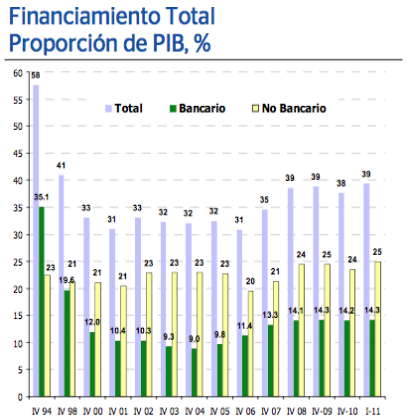
1.22 The lack of regulatory incentives is being addressed by a number of operations from the IDB and CTF (see par 1.14). On the other hand, high investment costs can only be reduced through technological progress. Therefore, this program focuses on the financial sector specific factors that restrict investment in RE power plants. Through the creation of the Renewable Energy Financing Facility, the IDB seeks primarily to leverage the CTF funds and to scale up investments in RE projects. The increase in the number of projects will also demonstrate their viability and indirectly contribute to the development of capacity within a financial sector increasingly familiarized with RE projects risks. The scope of the

intervention, considering conservative assumptions on the leverage attainable, will allow for a significant boost in RE power capacity investment in Mexico on the order of 1,000 MW.

5. The financial sector, the role of NAFIN, and the IDB

1.23 The difficulties found to finance RE projects in Mexico are sector specific (high investment needs, regulatory uncertainty spreads, lack of experience) but they can also be presented as a special case of a broader problem that has been systematically diagnosed in the Mexican economy for some time: that of access to credit and the relative size of the financial sector. Indeed total credit to the economy stands at 39%, well below that of comparable economies in the region (see chart below from BBVA Research). The ratio falls significantly when one considers only banking credit (see graph below). Micro and SMEs have to resort to traditional sources of credit (family, suppliers, and pawn houses) and only large Mexican firms with a long national and/or international credit track record are financed by the commercial banks. The lack of growth in the financial system can be traced back to the 1995 financial crisis and has acted as a major obstacle for growth.





1.24 The government of Mexico is leading multiple interventions in the energy sector to address GHG reductions in an integrated manner, improving the supply of energy and implementing demand side management to reduce the carbon footprint associated to it. Among these actions, a massive development of wind and small hydroelectric power plants has been planned. Specifically, for scaling-up renewable energy projects, some level of public intervention and support is needed to correct market failures, organize the market and catalyze investment.

1.25 In this context, as explained above, Mexico's CTF IP outlined the strategy, sectors, and objectives to be implemented by IDB and the World Bank Group, leveraging additional resources and included US$125 million of concessional CTF resources for IDB RE programs.

1.26 According to the CTF IP, a scaled up CTF renewable energy program could produce cumulated savings of 355 Mt CO_2e (or 18 Mt CO_2e reduced per year in 2030). Among the priority investments for the renewable energy sector in

Mexico, the plan envisaged establishing a financing facility in a local infrastructure bank (NAFIN) to leverage the proposed CTF resources, to support public and private sector investments, and to demonstrate commercial viability of RE projects. The proposed fund based on CTF resources would aim at: (i) providing a guarantee and financial facility for large-scale wind power projects; and (ii) leveraging investment for development of a small-hydropower project pipeline.

1.27 NAFIN is a national credit institution established to promote savings and investment and to channel financial and technical support for Mexico's industrial and economic development. IDB has a long history of relations with NAFIN although centered in the more traditional support policy towards SMEs. NAFIN supports projects with private sponsors to reduce GHG emissions through a new Sustainable Projects Directorate which has received technical assistance from the World Bank and uses its methodology and manuals to manage the risks associated with RE projects.

1.28 NAFIN is best positioned to leverage the existing CCLIP ME-X1010, Loan No. 2226/OC-ME, with resources from the Clean Technology Fund (CTF) and with its own funding to scale up the impact of the multilateral initiatives involved. NAFIN is a solvent institution with adequate risk management practices and the full backing of the Mexican government. In December 2010, its assets stood at Mex$299 billion, including a credit portfolio of almost Mex$123 billion. Net worth totaled Mex$16.3 billion. Over the past two years NAFIN increased its activity and expanded its balance sheet to counter the decline in economic activity due to the financial crisis, and yet managed to generate a net profit of Mex$1,040 million in 2010. Capital, cash, and reserves amount to a comfortable financial position.

1.29 In the context of this particular program, IDB would be playing the critical role of channeling the international funding sources for climate change mitigation to the financial sector in Mexico. Insofar as CTF resources have to be combined with IDB/CCLIP resources, the Bank would also be contributing to scaling up the impact sought by the international donor community. However IDB's involvement with the CTF IP goes beyond this program. It started in the very design of the investment plan and it includes cooperation in various fields, in a multi pronged approach in collaboration with the WB and IFC, including technical assistance and capacity building, as well as assistance to develop regulation and support to local research institutes. The Mexican strategy on climate change was incorporated into the IDB Country Strategy with Mexico (Nov 2010-Dec 2012). It features clearly in its results matrix, whose strategic objectives include supporting the implementation of the climate change adaptation and mitigation agenda at the federal and sub-national level. It also is consistent with the lending target in support of climate change initiatives of the IDB's GCI-9.

B. Objective of the program

1.30 The program goal is to contribute to Mexico's drive to increase the share of Renewable Energy (RE) sources in its overall generation and to reduce GHG emissions. This would be achieved by pursuing two specific and interconnected objectives: (i) scaling up investment in RE generation projects; and (ii) contributing to familiarize the Mexican banking sector with these investment opportunities by demonstrating their viability and mobilizing resources from financial institutions.

1.31 The main impact of the program would be the electricity generated from RE sources and the implicit reduction in GHG emissions. The expected outcomes in connection with the specific objectives are: a) an effective increase in the investment in RE generation projects, and b) increased investment by Mexican financial institutions in RE projects as a result of having become familiarized with these opportunities.

1.32 The program will provide financial resources to eligible projects in competitive conditions in two different ways: (i) through the provision of direct loans to developers of RE generation projects; and (ii) making contingent credit lines available to projects, to cover potential cash flow shortages over the life of the project.

C. Key results indicators

1.33 The Results Matrix (Annex II) attached outlines the indicators and the means to verify the accomplishment of the program's targets. While the immediate outputs of the REFF are the number of RE fueled power plants financed and the number of RE mega watts of generation capacity financed, the overall goals ought to be measured in terms of the power to be actually generated at the RE plants and the GHG emissions averted. To estimate both figures in advance is a relatively straightforward exercise based on the total capacity installed with a certain margin of error (actual production may differ).

1.34 More importantly however, the measurement of the ultimate goal of the program over a period of time shorter than the average life span of the power plant is deceiving. For instance the GHG emissions averted by the construction of a wind power central ought to be considered as the product of an average utilization of the plant in a period of 15 to 20 years with the present technologies. Another key desired impact of deploying REFF resources for RE projects through the two instrumental modalities contemplated, but especially through the second, will be the catalytic effect for the projects financial structure. Using conservative estimates for a total of 1.000 MW of generation capacity installed, the US$210 million of the REFF would have to mobilize at least another US$1,190 to US$1,540 million to cover the investment costs of US$2 to US$2.5 million per MW with a 30/70 equity to debt ratio.

1.35 The project would imply a unit abatement cost of US$1.74 per Metric Ton considering total CTF investment. Assuming an US$8 price per Metric Ton of GHG emissions averted, the Net Present Value of the annual flow of GHG emissions savings delivered by the investments is US$120 million (see Economic Analysis). The REFF will deliver externalities beyond the reduction of GHG emissions. We can group them into two categories:

1.36 **Social and developmental externalities**. The construction of RE generation plants means employment opportunities, especially, but not only, during the construction phase. Although generation plants are capital intensive factories and once constructed the number of workers directly serving production is relatively limited, the number of projects does imply a number of indirect job opportunities locally, especially significant when considering that a majority of those will be concentrated in relatively poor areas (Oaxaca).

1.37 Another social impact is the income derived from the rental/leasing of the land affected to the power plants. This income will accrue to private owners but also to communities and municipalities. The Environmental and Social Management Report includes provisions to ensure that lease prices have been determined through a fair process and are in line with market comparators.

1.38 Finally, it is not unusual for project developers to complement their lease/rental agreements with compensations other than the mere rent payment, typically in support of municipalities and communities, and normally consisting of goods and infrastructure investments. However, it is often difficult to estimate or to monetize such contributions because they may not be made public and because communities lack incentives to make them so.

1.39 For the sake of measurement of the social/developmental effects of the REFF, the impact of these contributions is probably a lot smaller than that of employment and rental income. At this stage it is estimated in over 10.000 hectares the land occupied by the developments, and in some 7.000 the jobs to be created during the construction phase, but there is uncertainty on these compensations due to the stage of development of the projects, and it would be adventurous to produce an estimate. NAFIN will however do its best efforts to gather information on such practices as projects progress.

1.40 NAFIN's **capacity strengthening** would be a byproduct of the fact that the Sustainable Projects Directorate within NAFIN (as well as the Credit Recovery and Monitoring Unit) while executing the program would acquire significant experience on the preparation, risk evaluation, and monitoring phases of this type of project. A separate TC, as mentioned above, ME-T1168, will provide NAFIN with consultancy services to strengthen its capacity. The same positive externality would accrue to banks that take part in projects and become familiarized and proficient in managing this type of projects.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Characteristics and eligibility of projects

2.1 Eligible projects need to meet a number of conditions and the overall program also has specific conditions. NAFIN will provide the project team with timely and sufficient information to monitor the performance of the program with regard to these targets. The project team will review the eligibility of projects on their individual merit but also vis-à-vis the overall targets. These goals will be an integral part of the ROP and might only be revised by mutual agreement between IDB and NAFIN, if demand or structural conditions so advise.

a. **Leverage ratio within the REFF:**

i. As stated above, the overall leverage ratio of the facility requires that the US$70 million of CTF resources be matched with at least equal amounts from the IDB CCLIP and from NAFIN's own resources.

ii. At the project level there is also a leverage ratio: the leverage on the project level will always be 1/3 CTF resources and at least 2/3 CCLIP/NAFIN's own resources.

b. **Size of project level involvement.** A single project will not receive more than US$10 million of CTF financing. The purpose of this condition is to spread out CTF resources and maximize leverage and demonstration effect. This implies that there will be at least 7 RE projects benefiting from the REFF.

c. **Share of REFF in individual project finance.** In at least 6 projects, CTF/CCLIP/NAFIN resources combined will not finance more than 50% of the total financing needs of the project. This condition maximizes leverage and project number, allowing for a majority role of REFF resources only in a limited number of projects, or in a larger number of smaller projects.

d. Diversification criteria seek to maximize impact and to avoid excessive technological or geographical concentration of the program, which would limit its impact and contribute to grid imbalances (excessive generation concentration in the south west). At full disbursement of the REFF (totaling at least US$210 million) no more than 65% of the overall amount of US$210 million can be utilized to finance wind projects in Oaxaca; at least 35% of the overall amount of US$210 million has to be utilized to finance either wind projects in other geographical regions or other eligible renewable energy resources.

2.2 Within the conditions set above, a pipeline of projects eligible for REFF financing will be selected by NAFIN. It is envisioned that the majority of the projects to be supported by the proposed operation will be wind farms in the state of Oaxaca,

because of the excellent wind conditions and energy potential and the interest of investors and developers. On account of the number and nature of the conditions agreed upon, as well as the difficulties developers run into in search of financing sources highlighted above, NAFIN will allocate resources per project following its own standard procedures on a first come first serve basis. Hence, ultimately, it will be the capacity of developers to complete the stages of their projects that will determine the end list of beneficiaries.

2.3 The total proceeds of the REFF will be channeled to end users by NAFIN directly, or indirectly, through the intermediation of other financial institutions including Mexican development banks, which would be financed by NAFIN (second tier transactions). Resources will ultimately be used: (i) to provide direct loans to finance new renewable energy projects. Up to 2 projects might be financed by NAFIN and later refinanced using CTF resources (as of the date of signature of the program and only up to 10 million USD); and (ii) to provide developers with contingency credit lines to finance transitory cash flow shortages up to the amount needed to service senior debt, due to any of the following reasons: off taker's default, energy price reduction when indexed to CFE tariffs, and/or energy generation below the one projected on base case scenarios.

2.4 Although both (i) and (ii) share their final goal, -scaling up investments-, the contingent credit product operates only indirectly, by helping developers complete the financial structure of their projects attracting credit or equity from other sources. There are however no targets for the proportion of the resources that has to be disbursed under each financing alternative. This allows both NAFIN and developers to opt for the alternative best suited to their financing needs.

2.5 The other main difference between the two instruments resides in the collateral structure of the projects. In the case of direct loans, REFF debt may become senior or junior debt within the overall financing structure of the project. In the case of the contingent lines, debt payment obligations to NAFIN will be linked and subordinated to the payments of senior debt, with a collateral structure to be agreed upon for each project. Accordingly, the scheduled amortization period for the REFF debt (were the line to be used) will be linked to that of the senior debt; on each senior debt´s installment date NAFIN will be paid from the cash available after repaying senior debt. Until the outstanding balance of the REFF is settled, the borrower will not be able to make any cash dividend or payment to equity holders or shareholder loans (NAFIN may introduce covenants with additional conditions to secure repayment). The final maturity date for the contingent line is also linked to that of the senior debt of the project with a maximum term of 18 months after the last senior debt's installment. The pricing structure also differs from that for direct loans.

2.6 **Terms, rates and costs for the end borrower.** The maturity for each sub loan will depend on the project. Considering wind and hydro projects as the most likely to form the majority of the pipeline, maturities will be in the 10 to 15 year range. The terms and rates applicable to CTF financing for NAFIN are

predetermined by standard conditions contained in CTF Financing Products and Terms.

Maturity	Grace Period	Principal Repayments Year 11-20	MDB Fee	Service Charge	Grant Element
20	10	10%	0.25%	0.75%	aprox 45%

2.7 The Grant Element of 45% is similar to IDA terms for its loan operations. These terms are generally applied by CTF to all projects/programs with rates of return in or around market conditions but that require the grant element to scale up investment or on account of specific risk factors. The Multilateral Development Banks (MDB) fee will consist of an upfront payment equal to 0,25% of the amount of the loan, payable by the borrower to the IDB to cover costs of origination, design, preparation, implementation and disbursement, monitoring and evaluation of the projects and program financed by the CTF REFF.

2.8 Uniform CTF financing terms, rather than terms varying by country and/or projects allow for simplicity and flexibility for the world wide disbursement of funds, because increasing or decreasing the proportion of CTF concessional financing blended in the overall financing plan calibrates the grant element to the country, sector, and project contexts.

2.9 Hence, it is not possible to pre determine the terms and conditions for the sub loans without previously determining the precise project. NAFIN will determine the terms by applying a spread to its REFF costs, -a blend of those of CTF and IDB resources and its own-. The spread will depend on the characteristics of the project, its internal rate of return and its risk profile. NAFIN will provide IDB with the necessary pricing information on the pass through of the concessional terms of CTF resources on to the end borrower, as well as the leverage ratio of CTF resources to any other resources. This will allow the Project Team to report back to the CTF Administrative Unit, the CTF Trust Fund Committee, and the IDB on the terms of the sub loans.

2.10 **Risks to the program.** Among the specific factors studied in the risk profile of the program (regulatory, donor and project risks) the possibility of inadequate regulation having a negative impact over the results of the program is perhaps the most distinct. In broad terms, the project team has a positive view with regard to the risks linked with public policy and regulation in Mexico in the field of energy and climate change because of the government's international commitments, the wealth of RE resources and its potential, and the importance of a vibrant RE generation sector from an environmental but also from an economic point of view. Regular contacts between the IDB and the regulatory authorities (SENER, SEMARNAT and CRE) also allow the team to play down this risk.

2.11 **Environmental and social risks.** The operation is classified under policy directive B.13, given that it is a flexible lending instrument. RE projects are considered as climate friendly due to their contribution to long-term GHG emissions reductions. However, wind, hydroelectric, and biomass projects can have adverse environmental and social impacts. These will vary based on the specific characteristics of the RE projects. Mexico is making significant efforts to safeguard the adverse impacts of wind projects; an environmental standard is in the process of being approved to deal with aspects of selection of sites and requirements to mitigate negative impacts from construction and operation phases. Also, with the assistance of the World Bank, the Energy Secretariat has commissioned a Strategic Environmental Assessment (SEA) for wind energy in Mexico.

2.12 In any case, NAFIN will assess the environmental and social risk and specific mitigation measures on a project by project basis, in accordance with IDB policies. NAFIN has experience in the Bank's approach to wind farms from the Eurus wind farm project. The Bank is building upon this experience and a manual developed by the WB for NAFIN, to define a procedure to be included into de ROP to ensure that appropriate safeguards are considered and included in RE projects. Please refer to the ESMR for additional information

2.13 **Fiduciary risks.** Based on the Bank's recent institutional capacity assessments on NAFIN's structure and processes (2009) and based on the experience in executing the ongoing operations, the fiduciary analysis concludes that NAFIN's systems are adequate and reliable (see Annex III). The fiduciary management system of the federal entities is in fact solid and thoroughly regulated, -in terms of both financial and acquisitions matters-, with strong internal controls and with external controls of audit firms coordinated by *Secretaría de la Función Pública* when projects include external finance. This program will use national systems only for the disbursement procedures, relying on well proven NAFIN methodologies. The complete analysis of fiduciary topics could be reviewed in Annex III.

III. IMPLEMENTATION AND MANAGEMENT PLAN

3.1 The borrower and executing agency for the program will be Nacional Financiera, S.N.C. (NAFIN), with the United Mexican States serving as guarantor. NAFIN will execute the program under its current organizational structure. The provisions governing program execution, financial intermediaries' participation, and eligibility of individual loans will be established in the Operating Regulations agreed by the Bank and NAFIN, in accordance with NAFIN and Bank standards and policies, Mexican laws, and practices in Mexico's financial industry.

3.2 Neither procurement actions nor consulting services are contemplated in this program. Eventually, end borrowers may use procurement processes according to market practice and acceptable to the IDB, according to Appendix IV of the Bank's Procurement Policy.

3.3 The facility resources of US$210 million are to be fully committed within 4 years running from the effective date of the loan agreement. The IDB will disburse CTF resources via reimbursements or advances according to standard practice in the case of direct sub loans, or upon signature of the contingent lines contracts by NAFIN with the developers. For this purpose, eligible contracts with end borrowers constitute eligible expenses. NAFIN commits to re-loan any pre-payment of an outstanding loan within the first seven years in eligible projects. Returns from the sub-loans will only be used by NAFIN to repay the loan or to use them to finance substantially similar projects. The volume of the advanced resources will be limited on the contract on account of the concessional element involved and the relatively long disbursement period for the overall facility. Advanced resources may cover all commitments entered into by NAFIN under contracts signed with the end borrowers.

3.4 NAFIN will request simultaneous (pari passu) disbursements from both IDB and CTF resources to fund the program. However, circumstances might determine the need to disburse funds in a different schedule. Attending to the need to preserve the leverage ratio at a program level, a mechanism for non-simultaneous disbursements is envisaged, where the source unable to provide its full share of the funding at any given moment on a pari passu basis will commit to a catch-up disbursement for the amount of the imbalance as soon as possible thereafter. **As a condition prior to the first disbursement of the program, the Executing Agency will provide evidence, to the Bank's satisfaction, of: (i) the formal designation of a Program Manager; and (ii) the entry into effect of the Operational Regulations agreed with the Bank**.

3.5 **Reports.** The program will be monitored through semiannual reports prepared by the executing agency and presented to the Bank within 60 days after the close of each six-month period, measuring progress against the indicators in the Results Matrix (and all information on the impacts described in section I.C above) and on the fulfillment of the eligibility criteria at the project and program level.

3.6 **Evaluation.** The borrower and the Bank will conduct a midterm evaluation within 24 months from the date of the first disbursement of financing or once 50% of the loan has been committed, whichever occurs first. The evaluation will assess progress in accomplishing program objectives and outcomes based on the Results Matrix in order to identify any corrective action required. The borrower will provide the information necessary for the Bank to conduct a Project Completion Report (PCR), to be carried out six months after the disbursement conditions for the last operation of the facility have been met. Periodical monitoring meetings are also scheduled.

3.7 **Information.** NAFIN will compile and maintain all information, indicators and parameters, including all documentation required to prepare the PCR and any ex post assessment the Bank or CTF may wish to conduct.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	The operation contributes to the lending target related to climate chance initiatives, renewable energy and environmental sustainability.		
Regional Development Goals	The operation contributes to the following regional development goals: (i) stabilization of CO2 equivalent emissions (metric tons per habitant); (ii) Countries with planning capacity in mitigation and adaptation of climate change.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	The operation contributes to the following Bank's outputs: (i) Percentage of power generation capacity from low-carbon sources over total generation capacity funded by IDB; and (ii) Climate change pilot projects in agriculture, energy, health, water and sanitation, transport, and housing.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2595	The operation is aligned with Country Strategy objective "implementing the climate change mitigation and adaptation agenda".	
Country Program Results Matrix	GN-2617	The operation was not included in the programming document for 2011.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.2		10
3. Evidence-based Assessment & Solution	7.2	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	5.7	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Low		
Environmental & social risk classification	B.13		
III. IDB´s Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	The operation will use the financial management systems of NAFIN.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	CTF Resources (ME-T1168) will be used to strengthen NAFIN's institutional capacity on environmental issues.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.			

This operation seeks to increase financing of renewable energy (RE) investments in Mexico, in line with Mexico's climate change strategy and in conjunction with the CIF CTF Investment Strategy for Mexico.

The diagnosis section provides the rationale for supporting a Mexican financing institution (NAFIN) in developing a portfolio of RE loans, and provides some evidence of current weaknesses in financing RE investments. There is an ex-ante cost benefit (benefits being GHG emissions reductions) and a cost-effectiveness analysis (evaluation of alternative RE investments that generate GHG emissions). The Results Matrix adequately captures project impacts, outcomes and outputs, with SMART indicators. The risks are also adequately handled, but as noted in the Risk Matrix, it is difficult, ex-ante, to determine potential negative environmental impacts, since these will only become apparent when actual investments are financed; however, the project document indicates that each project will then be subject to an environmental review as a precondition for receiving financing.

RESULTS MATRIX

General Objective of the Program	To contribute to Mexico's drive to increase the share of Renewable Energy (RE) sources in its overall generation and to reduce GHG emissions.
Specific objectives of the program	1. To scale up investment in Renewable Energy generation projects. 2. To familiarize NAFIN and the Mexican banking sector with these investment opportunities.

Indicators	Unit	Baseline (End 2010)	End Year 1	End Year 2	End Year 3	End Year 4	Target	Description
OUTPUTS								
1. RE Power Plants financed	Number		1	3	3	3	10	Monitoring: NAFIN information on developers. Verified with authorities from the *Comisión Reguladora de la Energía* (CRE) and the *Comisión Federal de Electricidad* (CFE)
2. Installed RE generation capacity (excludes large Hydro)	MW	2.282	2.432	2.682	2.982	3.282	3.282	Monitoring and verification: Idem vidi supra.
3. Financing from third parties mobilized in the program	Millions US$		231	385	462	462	1.540	Reports on Projects and NAFIN. Estimate based on a 70/30 debt to equity ratio in the projects, US$2.5 millions per MW installed (according to technology) and US$210 million of REFF investment.
4. Number of financial institutions involved (other than NAFIN)	Number		1	3	3	3	10	Reports on Projects and NAFIN.

Indicators	Unit	Baseline (End 2010)	End Year 1	End Year 2	End Year 3	End Year 4	Target	Description
IMPACTS OF THE PROGRAM								
1. Annual Electricity Generation from RE sources (excludes large Hydro)	GWH	10.309	10.862	11.784	12.891	13.998	13.998	Information from CRE & CFE. Estimate calculated in relation to the average utilization factor in Mexico.
2. Annual contribution to the reduction/ stabilization of CO_2 Emissions once the plants are commissioned.	Metric Tons CO_2		301.686	804.497	1.407.869	2.011.242	2.011.242	Estimated taking into account envisaged production and following IDB methodology. Monitoring and verification: IDB and CRE/CFE.
OUTCOME SPECIFIC OBJECTIVE 1: TO SCALE UP INVESTMENT IN RE GENERATION PROJECTS								
1. Increase in total investment in RE generation capacity (Related to outputs 1 and 2 above)	Million US$		375	625	750	750	2.500	Reports on Projects and NAFIN. Estimate based on a US$2,5 millions per MW installed.
OUTCOME SPECIFIC OBJECTIVE 2: To familiarize NAFIN and the Mexican banking sector with these investment opportunities.								
1. Overall Increase in RE Generation capacity (Related to outputs 3 and 4 above)	MW						3.000	Due to the demonstration effect, financial resources may become available to finance a further 2.000 MW of RE power plants. Information from CRE & CFE. Estimate based on CRE projections for end 2015.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

COUNTRY: MEXICO

PROJECT Nº ME-L1109 NAME: CTF Renewable Energy Financing Facility for Mexico.

EXECUTING AGENCY: *Nacional Financiera* S.N.C. (NAFIN) through the Sustainable Projects Division.

PREPARED BY: MIRIAM GARZA (Fiduciary Operations Analyst) ; RAUL LOZANO (Senior Procurement Specialist).

I. Executive summary

Based on the executing agency's experience with loan 2226/OC-ME (Program to Promote the Development of SME Suppliers and Contractors for the National Oil Industry), with alternative energy projects related to the oil industry, and with technical cooperation operation ATN/OC-11273-ME (Support for Feasibility Studies for Sustainable Projects), in addition to the institutional capacity assessment conducted previously on the agency's management and control structure, the executing agency is considered to have appropriate, reliable systems in place.

The Fiduciary Management System for federal entities is sufficiently sound and highly regulated, in terms of both financial and procurement matters. Internal control bodies are coordinated by the Civil Service Department (SFP) and external control is carried out by independent auditors selected by the Bank and the SFP for projects with external financing.

Execution of this loan will use country systems for disbursement-related matters, through the Integrated Financial Information System (SIIF) in conjunction with NAFIN's own Loan Administration System (SICAF), which consolidates accounting and loan registers. Project execution will also rely on NAFIN's International Division and its vast experience as a financial agent.

II. Fiduciary Context of the Executing Agency

A new Institutional Capacity Assessment (ICAS) report was considered unnecessary given past experiences with NAFIN and the fact that the executing agency underwent an ICAS in October 2009 and existing conditions are largely unchanged and, in fact, strengthened. The assessment mission conducted 6-7 July 2011, afforded the opportunity to corroborate the information previously provided in the 2009 ICAS report.

III. Fiduciary Risk Assessment and Mitigation Measures

The 2009 ICAS questionnaires revealed scores ranging from 96.46% to 100.00% in each of the functional areas assessed. The average score was 97.94%, reflecting a Sufficient Development level for program execution and, therefore, a Low Risk for all systems included in assessment.

A questionnaire was used for each of the seven systems, with the following results:

Capacity	System	Quantification			Development (ND, ID, MD, SD)	Level of Risk (HR, SR, MR, LR)
		Score %	IR %	Weighted %		
POC	PAS	100.00	50	50.00	SD	LR
	OAS	96.30	50	48.15	SD	LR
TOTAL				98.15	SD	LR
EC	PMS	94.44	30	28.33	SD	LR
	GSMS	96.77	30	29.03	SD	LR
	FMS	97.73	40	39.09	SD	LR
TOTAL				96.46	SD	LR
CC	ICS	100.00	80	80.00	SD	LR
	ECS	100.00	20	20.00	SD	LR
TOTAL				100.00	SD	LR

IV. Aspects to Be Considered in the Special Clauses of Contracts

In order to facilitate contract negotiation for the project team and, primarily, LEG, the following is a list of those Agreements and Requirements that must be considered in the special clauses:

a. Conditions precedent to first disbursement: project Operating Regulations (OR) indicating the eligibility criteria for projects to be financed and the executing mechanism.

b. Exchange rate for accounting purposes: Exchange rate on the last day of the month prior to the reporting date published on the Bank's extranet.

c. Auditing of financial statements in accordance with the General Terms of Reference for Audits of Projects Financed by International Financial Entities in Mexico, as agreed between the IDB-WB and the SFP on an annual basis, for both the program and executing agency.

d. There is no procurement anticipated or any technical assistance component, since the corresponding contracting would be financed with technical assistance resources provided under project ME-L1051. Were procurement to become necessary, Bank procurement policies (GN-2349-9 and GN-2350-9) would be complied with fully and, consequently, prior to any competitive bidding process for a contract award, the executing agency will submit the proposed procurement plan to the Bank for review and approval, pursuant to the Procurement Policies. During program execution, the plan will be updated at least every 12 months, and all updates will be submitted for Bank review and approval. Procurement will be conducted in accordance with the procurement plan, which will indicate those contracts to be reviewed ex ante and ex post.

V. Agreements and Requirements for Procurement Execution

Fiduciary agreements and requirements for procurement set forth the provisions that apply to all procurement actions anticipated for the project, in the event that loan-financed procurement were to become necessary:

1. Procurement execution

a) **Procurement of Works, Goods and Services Other Than Consulting Services:** The contracts for works, goods and services other than consulting services[1] generated under the project and subject to International Competitive Bidding (ICB) will be carried out using the Standard Bidding Documents (SBDs) agreed upon with the Bank. Bidding subject to National Competitive Bidding (NCB) will also be carried out using harmonized Bidding Documents coordinated between the SFP and the Bank, and will serve to guide the selection and contracting processes financed with resources from external loans. They are available on line at: (http://www.funcionpublica.gob.mx/unaopspf/credito/normace.htm). The project's sector specialist is responsible for reviewing technical specifications for procurement during the preparatory phase of the selection processes.

b) **Selection and contracting of consultants**: Consulting services contracts generated under the project will be executed using the Standard Request for Proposals (RFP) agreed upon with the Bank and the SFP, and serve to guide the selection and contracting processes financed with resources from external loans. Such guidelines are available on line at: (http://www.funcionpublica.gob.mx/unaopspf/credito/normace.htm). The project's sector specialist is responsible for reviewing the terms of reference for the contracting of consulting services.

Selection of individual consultants: Consulting services contracts with individual consultants will be awarded taking into account consultants' qualifications to perform the work, based on a comparison of the qualifications of at least three (3) candidates. Contracting will be done using the model contract for individual consultants agreed upon with the Bank, available on line at: (http://www.funcionpublica.gob.mx/unaopspf/credito/normace.htm).

c) **Others**: It is projected that 100% of loan proceeds will be earmarked for NAFIN to channel those resources to finance wind and small hydropower plants, serving as a first- or second-tier bank, in accordance with the provisions of Annex 4 – Procurement Policies for Private Sector Loans.

2. Table on threshold amounts (US$000)

Works			Goods[2]			Consulting	
International Competitive Bidding	National Competitive Bidding	Shopping	International Competitive Bidding	National Competitive Bidding	Shopping	International Competitive Bidding	100% National Short List
>15'000,000	< 15'000,000 and > 500,000	< 500,000	>= 3'000,000	<3'000,000 and >100,000	<100,000	> 200,000	< 500,000

[1] Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (GN-2349-9), paragraph 1.1: Services other than consulting services are treated like goods.

[2] Includes services other than consulting services.

3. Main procurement processes

The executing agency has no procurement activities planned; NAFIN is expected to use 100% of the loan proceeds to finance private entities, as stipulated in paragraph 3.12 and Annex 4 of the Procurement Policies (documents GN-2349-9 and GN-2350-9).

4. Procurement supervision

Given the project's low level of fiduciary risk, inspection visits will be conducted on an annual basis. The executing agency's experience in previous operations, both as the executing agency and financial agent, was taken into account in determining the supervision schedule.

An external auditing firm will conduct an ex post review of any procurement actions and, where appropriate, will submit a special notes section to be included in the procurement report, pursuant to the terms of reference agreed upon by the IDB and the SFP.

Thresholds for Ex-Post Review

Works	Goods	Consulting Services (Consulting Firms)	Consulting Services (Individual Consultants)
< US$15.000.000	< US$3.000.000	< US$200.000	< US$100.000

Note: Threshold amounts calling for ex post review are applied based on the executing agency's fiduciary capacity for program execution and may be modified by the Bank should there be changes in that capacity.

5. Files and records

The basic original documentation to provide evidence of expenditures to the Bank will remain on file with NAFIN. The Sustainable Projects Division will be responsible for consolidating program financial and procurement information and interfacing with the Bank.

VI. Financial Management

1. Programming and budget

According to the 2009 ICAS, planning and programming functions and responsibilities are documented in the Financial Planning and Programming Manual, as are the planning policies authorized by the Board of Directors.

Clearly, programming and budgeting activities are aligned with SHCP time frames and requirements. Likewise, Congress and the Board of Directors authorize the financial program (budget) in accordance with the law.

A corporate governance structure exist to monitor compliance with the plan, and weekly, monthly and quarterly meetings are held in order to track the indicators reported to the Board of Directors and to the different operational committees for each process.

2. Accounting and information systems

As reflected in the 2009 ICAS, NAFIN has an automated system for accounting and financial records that is integrated into its general accounting system. In addition, the information is supervised by the CNBV and its financial statements have to be authorized by the Board of Directors. Clear, established, ISO 9001-2000-certified programming and budgeting procedures are in place, in addition to effective mechanisms for oversight, assessment, and review. Likewise, all financial transactions are properly recorded and a receipt is printed for accounting records. In addition, NAFIN has a Loan and Operations Manual approved by the Board of Directors that specifies the nature, purpose, and outcomes of each operation, and

describes operating procedures, authorizations, transfers, record keeping, and operational oversight mechanisms.

3. Disbursements and cash flow

There are two disbursements methods envisaged: (a) in the form of advances, (b) as portfolio reimbursements, which is estimated to be the most common modality over the life of the project.

NAFIN's Sustainable Projects Division, in accordance with the eligibility criteria for granting loans and specifications in the Operating Regulations, will prepare a report on the portfolio that would be most likely to be financed with CTF funds, and NAFIN's Financial Agent Section will submit the disbursement request to the IDB. Disbursement reviews are expected to be conducted ex post, based on previous experiences with the executing agency at earlier stages.

4. Internal control and audits

Internal control functions will be handled at different points throughout the control process using NAFIN's internal control mechanisms, such as Internal Auditing, Accounting, and Financial Agent Operations Management. This will primarily involve the review of reports, the review of data, the preparation of accounting reports, the issuing of confirmations, reporting and control, and the generation and sending of reports on foreign exchange positions, among others.

Once a loan is approved, it is recommended that there be verification of the executing agency's having implemented mechanisms to ensure that the subloans granted comply with the eligibility requirements, the recording, control, and use of recoveries, and the monitoring and control of interest rate application.

5. External control and reporting

In terms of external controls, at the federal level the Civil Service Department (SFP) serves as the regulatory body for the Government of Mexico. This department, through the Auditing Bureau, will designate external audit firms, subject to the IDB's no objection, to conduct audits of the financial statements of the executing agency and the program when these are fully or partially financed with IDB resources. Annual audits will be performed, and must be submitted to the Bank within 280 days of the close of each fiscal year.

To that end, harmonized terms of reference developed and agreed upon by the SFP and the IDB will serve as a basis for auditors conducting audits and will include formats for submitting standardized financial statements, which, however, will not limit the auditor or his independent professional judgment.

Additionally, because NAFIN is a financial institution, it is subject to the responsibility of an extensive structure of governmental agencies, defined in the legal provisions of the NAFIN Act, the National Banking and Stock Exchange Commission (CNVB), and the Law on Credit Institutions.

6. Financial oversight plan

At least one annual financial-accounting supervision visit is planned, with joint participation by the Sector Specialist in charge and NAFIN staff. No financial management risks are anticipated, given previous experiences with the Executing Agency.

7. Execution mechanism

NAFIN's Sustainable Projects Division will be the executing agency and will be in charge of managing eligible loan operations. It will use the Integrated Loan Administration System (SIRAC) tool and will be supported by NAFIN's International Division in performing Financial Agent functions.

NAFIN's International Division has 18 administrative units and one section, specifically the Financial Agent Section.

8. Other financial management agreements and requirements

NA

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/11

Mexico. Loan ____/__-ME to Nacional Financiera, S.N.C.
Clean Technology Fund - Renewable Energy
Financing Facility

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, as Implementing Entity for the Clean Technology Fund, to enter into such contract or contracts as may be necessary with Nacional Financiera, S.N.C., as Borrower, and with the United Mexican States, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of a Renewable Energy Financing Facility. Such financing will be for an amount of up to US$70,000,000 from the resources of the Clean Technology Fund, administered by the Bank, 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 ___ _____ 2011)