

CONFORMED COPY

LOAN NUMBER 2919 ME

(Fertilizer Sector Loan)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

NACIONAL FINANCIERA, S.N.C.

Dated June 13, 1988

LOAN AGREEMENT

AGREEMENT, dated June 13, 1988, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NACIONAL FINANCIERA, S.N.C. (the Borrower).

WHEREAS (A) the Bank has received a letter dated February 25, 1988 (the Fertilizer Sector Policy Letter) from the UNITED MEXICAN STATES (the Guarantor), describing a program of actions, objectives and policies designed to achieve adjustments to, and restructuring of, the Guarantor's fertilizer sector (hereinafter called the Program), declaring the Guarantor's commitment to the execution of the Program and requesting assistance from the Bank in financing imports, works and services required during such execution;

(B) the Guarantor, the Borrower and FERTILIZANTES MEXICANOS S.A. (FERTIMEX) having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(C) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake other obligations as set forth in the Guarantee Agreement;

(D) by an agreement (the Project Agreement) of even date herewith between the Bank and FERTIMEX, the latter has agreed to undertake the obligations set forth in the Project Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985 (the General Conditions), with the modifications set forth below, constitute an integral part of this Agreement:

(a) the last sentence of Section 3.02 is deleted; and

(b) Section 9.07 (c) is modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed upon for this purpose between the Guarantor and the Bank, the Guarantor, the Borrower and FERTIMEX shall prepare and furnish to the Bank, a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program referred to in the Preamble to the Loan Agreement, the carrying out of the Project, the performance by the Guarantor, the Borrower, FERTIMEX and the Bank of their respective obligations under the Guarantee, Loan and Project Agreements, and the accomplishment of the purposes of the Loan."

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

(a) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "FERTIMEX" means Fertilizantes Mexicanos, S.A., a company established and wholly owned by the Guarantor;

(c) "Project Agreement" means the agreement between the Bank and FERTIMEX, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental thereto;

(d) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and FERTIMEX pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental thereto;

(e) "FERTIMEX Convenio" means the contractual arrangement to be entered into between the Guarantor and FERTIMEX, in accordance with Section 3.05(i) of the Guarantee Agreement and Section 2.04 (a)(ii) of the Project Agreement;

(f) "PEMEX" means Petroleos Mexicanos, the national petroleum company, established and wholly owned by the Guarantor;

(g) "PEMEX Agreement" means the contract, to be entered into between PEMEX and FERTIMEX, in accordance with Section 3.05(ii) of the Guarantee Agreement and Section 2.04(a)(iii) of the Project Agreement;

(h) "Investment Program" means the investment program referred to in Section 2.09 (a) the Project Agreement;

(i) "Plant Closure Program" means the program to reduce total production capacity of fertilizer and fertilizer intermediates, referred to in Section 2.10 (a) the Project Agreement;

(j) "Pricing Actions" means the actions to be taken by the Guarantor pursuant to Sections 3.06 and 3.07 of the Guarantee Agreement;

(k) "QRs" means quantitative restrictions placed by the Guarantor on imported goods and materials;

(l) "Official Reference Prices" means the reference prices for imported goods and materials published by the Guarantor;

(m) "Non-tariff Barriers" means any form of restriction, other than the levy of a tariff, on imports, including, inter alia, QRs and restriction by means of Official Reference Prices and import permits;

(n) "First Tranche" means disbursements of the proceeds of the Loan for eligible imported goods under Part A of the Project up to an amount not to exceed the equivalent of \$100,000,000;

(o) "Second Tranche" means disbursements of the proceeds of the Loan for eligible imported goods under Part A of the Project in excess of the equivalent of \$100,000,000;

(p) "General Imports" means the imported goods defined in paragraph 2(c)(i)(A) of Schedule 1 to this Agreement;

(q) "Fertilizer Imports" means the imported fertilizer raw materials and finished products defined in paragraph 2(c)(i)(B) of Schedule 1 to this Agreement;

(r) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/REV.3 (1986);

(s) "Fiscal Year" means the fiscal year of the Guarantor, the Borrower or FERTIMEX, as the case may be, each of which currently begins on January 1 of each year;

(t) "Pacto de Solidaridad Economica" means the Economic Solidarity Pact signed on December 15, 1987 by the Guarantor, representatives of farmer and labor organizations, and the private sector establishing a system for setting and maintaining prices of certain products and commodities; and

(u) "peso" means the currency unit of the Guarantor.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to two hundred sixty-five million dollars (\$265,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made or, if the Bank shall so agree, to be made in respect of the reasonable cost of

goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars, a Special Account on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1993 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Subsidiary Lending, Transfer of Funds Other Covenants

Section 3.01. (a) The Borrower shall enter into contractual arrangements, satisfactory to the Bank, with the Guarantor providing, inter alia, for: (i) the transfer to the Guarantor of the proceeds of the Loan for carrying out Part A of the Project; and (ii) the transfer by the Guarantor to the Borrower of such funds as the Borrower shall be required to pay to the Bank on account of principal interest and other charges on the Loan with respect to Part A of the Project.

(b) The Borrower shall lend the proceeds of the Loan to FERTIMEX for purposes of carrying out Parts B and C of the Project under a Subsidiary Loan Agreement, satisfactory to the Bank, to be entered into between the Borrower and FERTIMEX and that shall include, inter alia, the following terms and conditions:

- (i) the interest rate to be charged on funds lent to FERTIMEX shall be variable and shall be set and readjusted in accordance with the provisions of Section 2.05 of this Agreement; FERTIMEX shall pay a fee of 10% of such interest rate on all amounts withdrawn and outstanding to the Borrower;
- (ii) such funds lent shall have an amortization period not to exceed 15 years, including a maximum grace period of three years; and
- (iii) such funds lent to FERTIMEX shall be denominated in dollars.

(c) Except as the Bank shall otherwise agree, the Borrower shall not change or fail to enforce any provision of such contractual arrangements referred to in paragraph (a) of this Section, or of the Subsidiary Loan Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. Except as otherwise provided in this Agreement, the Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) for the Project shall be carried out by the Borrower with respect to Part A of the Project, and by FERTIMEX with respect to Parts B and C of the Project pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, the Special Account, and separate records and accounts adequate to reflect, in accordance with sound accounting practices, the resources and expenditures in respect of Part A of the Project.

(b) The Borrower shall:

- (i) have the accounts, referred to in (a) above, including the Special Account, for each fiscal year audited in accordance with generally accepted auditing standards and procedures consistently applied, by independent and qualified auditors;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested;
- (iii) furnish to the Bank each month certified statements of the Special Account; and
- (iv) furnish to the Bank such other information concerning such Accounts, and the audit thereof and said records as the Bank shall from time to time reasonably request.

(c) For all expenditures under Part A of the Project with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, or cause to be maintained, in accordance

with paragraph (a) of this Section, records and accounts reflecting such expenditures;

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

ARTICLE V

Remedies of the Bank

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

(a) that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) that as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that FERTIMEX will be able to perform its obligations under the Project Agreement;

(c) that FERTIMEX shall have failed to perform any of its obligations under the Project Agreement; and

(d) FERTIMEX, or any authority having jurisdiction over FERTIMEX, shall have taken any action for the dissolution or disestablishment of FERTIMEX or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that: (i) the event specified in subparagraph (d) of Section 5.01 of this Agreement shall occur, or (ii) that any of the events specified in subparagraph (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days.

ARTICLE VI

Effective Date; Termination

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

(a) that the Borrower and the Guarantor shall have entered into the contractual arrangements referred to in Section 3.01 (a) of this Agreement;

(b) that the Borrower and FERTIMEX shall have entered into the Subsidiary Loan Agreement;

(c) that the Guarantor and FERTIMEX shall have entered into the FERTIMEX Convenio; and

(d) that FERTIMEX and PEMEX shall have entered into the

PEMEX Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the contractual arrangements referred to in Section 3.01 (a) of this Agreement have been executed and duly authorized by, and are legally binding upon the parties thereto in accordance with their respective terms;

(b) that the Subsidiary Loan Agreement has been executed and duly authorized by, and is legally binding upon, the Borrower and FERTIMEX in accordance with its terms;

(c) that the Project Agreement has been executed and duly authorized by, and is legally binding upon, FERTIMEX in accordance with its terms;

(d) that the FERTIMEX Convenio has been executed and duly authorized by, and is legally binding upon, the Guarantor and FERTIMEX, in accordance with its terms; and

(e) that the PEMEX Agreement has been executed and duly authorized by, and is legally binding upon FERTIMEX and PEMEX in accordance with its terms.

Section 6.03. The date September 12, 1988, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Director Internacional of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For the Borrower:

Direccion Internacional
Nacional Financiera, S.N.C.
Plaza NAFINSA
Insurgentes Sur 1971
Torre Sur, 9o Piso
CP 01020 Mexico, D.F.

Cable address:

NAFIN
Mexico City

Telex:

NAFIME 383-1775765
Mexico City

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Barber B. Conable

President

NACIONAL FINANCIERA, S.N.C.

By /s/ Gustavo Petricioli

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Eligible Imports under Part A of the Project	200,000,000	100% of foreign expenditures
(2) Goods under Parts B and C of the Project	30,800,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 80% of local expenditures for other items pro- cured locally
(3) Civil Works under Part B of the Project	32,800,000	100% of foreign expenditures; and 80% of local expenditures
(4) Consultants' services, training and studies under Part C of the Project	1,400,000	100%
TOTAL	265,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for

goods or services supplied from the territory of any country other than that of the Guarantor;

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor; and

(c) the term "Eligible Imports":

(i) for purposes of disbursements of the proceeds of the Loan under the First Tranche, means:

(A) expenditures made for the reasonable cost of imported goods required during the execution of the Program in 1988 to be financed out of the proceeds of the Loan ("General Imports"), up to an amount not to exceed to equivalent of \$50,000,000; and

(B) expenditures made for fertilizer raw materials and finished products ("Fertilizer Imports") included in the following list:

Raw Materials:

Phosphate rock
Potassium chloride
(Standard)
Sulfur

Finished Products:

Urea
Ammonium sulfate
Ammonium nitrate
Diammonium phosphate
Monoammonium phosphate
Potassium chloride
(Granulated)
Potassium sulfate
Complex fertilizers
Triple superphosphate
Phosphoric acid
Potassium nitrate; and

(ii) for purposes of disbursement of proceeds of the Loan under the Second Tranche, means Fertilizer Imports purchased utilizing the international competitive bidding procedures set forth in Section I, Part A of Schedule 4 to this Agreement.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-Group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials

667	-	Pearls, precious and semi-precious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated nuclear reactors
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

(b) expenditures in the currency of the Guarantor, or for goods supplied from the territory of the Guarantor;

(c) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$1,000,000 may be made on account of expenditures for Fertilizer Imports before that date but after January 1, 1988;

(d) expenditures for goods supplied under a contract which any national or international financing institution or agency shall have financed or agreed to finance; and

(e) expenditure for goods intended for a military or paramilitary purpose or for luxury consumption.

4. No withdrawals shall be made and no commitment shall be entered into to pay amounts to or on order of Borrower in respect of expenditures to be financed out of the proceeds of the Loan, after the aggregate of the proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments shall have reached the equivalent of \$100,000,000 under Part A of the Project unless the Bank shall be satisfied, after an exchange of views as described in Section 3.09 of the Guarantee Agreement and Section 2.05 of the Project Agreement, based on evidence satisfactory to the Bank:

- (i) with the progress made by the Guarantor, Borrower and FERTIMEX in carrying out the Project and Program; and
- (ii) that the actions described in the Schedule to the Guarantee Agreement have been taken.

5. If after the exchange of views referred to in paragraph above, the Bank shall have given notice to the Guarantor, the Borrower and FERTIMEX that the progress achieved or actions to be taken referred to in paragraph 4 above are not satisfactory and, within 90 days after such notice, the Guarantor, the Borrower or FERTIMEX shall not have achieved progress or taken actions satisfactory to the Bank, then the Bank may, by notice to the Guarantor, Borrower and FERTIMEX, cancel the unwithdrawn amount of the Loan or any part thereof.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) support implementation of the Guarantor's Program; (b) assist in the improvement of the efficiency of production and distribution of fertilizers; (c) support the financial self-sufficiency of FERTIMEX; and (d) assist in the improvement of managerial and organizational capabilities

of FERTIMEX.

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

Part A: Imports

Financing imports of fertilizers, fertilizer raw materials and other goods and materials.

Part B: Investments

1. Modernization and improvement of the Pajaritos, Minatitlan and Bajio plants and the acquisition and installation of measuring instrumentation for such plants.

2. Completion of the Pajaritos nitric acid and ammonium nitrate plants.

3. Improvement of the fertilizer distribution system, including:

(a) construction of 14 wholesale warehouses for solid fertilizers, and 4 storage spheres for anhydrous ammonia; and

(b) improvements in 7 maritime terminals, including construction or retrofitting of dedicated bulk fertilizer warehouses, acquisition and utilization of loading equipment, berth extension and construction of other improvements to the Topolobampo and Altamira ports, dredging, and construction of railroad sidings and connections.

Part C: Studies and Technical Assistance

1. Carrying out a study of the alternative methods of implementing the Guarantor's policy of withdrawing FERTIMEX from retail and consignment operations, and the implications of applying each such method.

2. Carrying out a study to improve the organizational structure and management of FERTIMEX.

3. Carrying out a study to develop: (a) specifications for rock which can be used in each of FERTIMEX's phosphoric acid plants; (b) a method of economic evaluation of the use of different types of rock; and (c) optimal operating conditions in each plant for specific rock types.

4. Provision of technical assistance, and training and acquisition and utilization of computer equipment and software, for purposes of upgrading FERTIMEX's planning capabilities.

* * * * *

The Project is expected to be completed by June 30, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each June 15 and December 15	
beginning December 15, 1991 through December 15, 2002	11,040,000
On June 15, 2003,	11,080,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See

General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Contracts for the procurement of General Imports estimated to cost the equivalent of \$5,000,000 or more each, and contracts for the procurement of Fertilizer Imports estimated to cost the equivalent of \$1,000,000 or more, shall be awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circula-

tion; or

- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for General Imports estimated to cost less than the equivalent of \$5,000,000 each, and contracts for Fertilizer Imports estimated to cost less than the equivalent of \$1,000,000 each, shall be awarded on the basis of the normal procurement procedures of the purchaser of goods.

3. Except as provided in Part C hereof, contracts for the procurement of goods and civil works shall be procured through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the Guidelines.

4. To the extent practicable, contracts for civil works shall be grouped in bid packages estimated to cost the equivalent of \$2,000,000 or more each.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in paragraph 3 of Part A hereof, goods manufactured in Mexico may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Phosphate rock for the Pajaritos' plant production of technical grade phosphoric acid may be purchased for use during 1988 by direct contracting procedures acceptable to the Bank, up to an aggregate amount not to exceed the equivalent of \$20,000,000.

2. Goods under Parts B and C of the Project estimated to cost less than equivalent of \$500,000 per contract up to an aggregate amount not to exceed the equivalent of \$7,000,000, may be procured under contracts awarded through limited international bidding procedures, satisfactory to the Bank, on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

3. Goods under Parts B and C of the Project estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$4,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

4. Proprietary goods under Parts B and C of the Project, for which there is a sole source of supply, may be procured by direct contracting procedures acceptable to the Bank, up to an aggregate amount not to exceed the equivalent of \$4,000,000.

5. The aggregate amount of all contracts for goods procured in accordance with paragraphs 2, 3 and 4 of Part C hereof, shall not exceed the equivalent of \$15,000,000.

6. Civil works under Part B of the Project estimated to cost less than the equivalent of \$2,000,000 per contract, up to an aggregate amount not to exceed \$8,000,000, may be procured under local competitive bidding procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to (i) each contract for General Imports estimated to cost the equivalent of \$5,000,000 or more, (ii) each contract for Fertilizer Imports or works estimated to cost the equivalent of \$2,000,000 or more and the first five (5) tenders for such goods, and (iii) each contract for goods under Parts B and C of the Project estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. When payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. When payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement with respect to Part A of the Project, and Section 4.01 (c) (ii) of the Project Agreement with respect to Parts B and C of the Project.

2. The figure of 20% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist FERTIMEX in carrying out Part C of the Project, FERTIMEX shall employ, or shall cause to be employed, when and as appropriate, consultants whose qualifications, experience and terms and conditions of employment shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (2), (3) and (4) as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the Eligible Categories in accord-

ance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Initial Deposit" means an amount equivalent to six million dollars (\$6,000,000) to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 of this Schedule.

2. Payments out of the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule. The Borrower shall make withdrawals from the Special Account for payments of Eligible Expenditures on the basis of the evidence that the Bank shall have reasonably determined, and shall debit the Special Account with the amount in dollars so withdrawn or with the dollar equivalent of the currency other than dollars in which the payment was made, determined on the basis of the rate of exchange between the dollar and such currency in effect: (i) on the date each payment shall have been made, if the payment has taken place within 90 days before the date of the withdrawal in question has been requested; or (ii) on the date each withdrawal shall have been made.

3. The Bank may, at the request of the Borrower, withdraw on behalf of the Borrower from the Loan Account and deposit into the Special Account the Initial Deposit. Thereafter, and on the basis of requests by the Borrower furnished to the Bank at such intervals as the Bank shall specify, the Bank shall further so withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account for Eligible Expenditures, but only to the extent that the amount of any such deposit, together with any amount remaining on deposit in the Special Account as of the date of such request, shall not exceed, in the aggregate, the equivalent of the Initial Deposit. Except as the Bank may otherwise agree, each such deposit after the Initial Deposit shall be withdrawn by the Bank from the Loan Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. Prior to or at the time of each request by the Borrower for a deposit by the Bank into the Special Account after the Initial Deposit, the Borrower shall furnish to the Bank in respect of each payment made by the Borrower out of the Special Account, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for Eligible Expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, when the total unwithdrawn amount of the Loan allocated to the Categories, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall be equal to the equivalent of twice the amount of the Initial Deposit, the Bank shall be entitled, after consultation with the Borrower, to reduce the percentage of disbursements for Eligible Expenditures or take any other action which will ensure the Bank that by the time of disbursements of the total amount of the proceeds of the Loan, all deposits (including the Initial Deposit made by the Bank into the Special Account) were made for Eligible Expenditures.

6. (a) If the Bank shall have determined at any payment out of the Special Account: (i) was made for any expenditure or in any amount not eligible for financing by withdrawal from the Loan Account; or (ii) was not justified by the documentation furnished pursuant to paragraph 4 above, the Bank shall notify the Borrower of such circumstances, and if, after a period of 30 days from the issuance of such notice, an amount equal to the amount of such payment or the portion thereof not so eligible or justified has not been deposited by the Borrower into the Special Account or, if the Bank shall so request, refunded, to the Bank, the Bank may, without in any way restricting or limiting any other rights, power, or remedy of the Bank under the Loan Agreement, refrain from making further deposits into such Account.

(b) If any amount outstanding in the Special Account will not be required to cover further payments for Eligible Expenditures, the Borrower shall, promptly upon notice from the Bank, and unless otherwise agreed by the Bank, refund to the Bank such amount then outstanding in the Special Account for crediting to the Loan Account and immediate cancellation.

