

No. 9511

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
MEXICO

Guarantee Agreement—*Rio Colorado Irrigation Project*
(with annexed Loan Regulations No. 4, as amended,
and Loan Agreement between the Bank and the
Nacional Financiera, S.A.). Signed at Washington
on 26 January 1968

Authentic text : English.

*Registered by the International Bank for Reconstruction and Development on
17 April 1969.*

BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
MEXIQUE

Contrat de garantie—*Projet d'irrigation du Colorado*
(avec, en annexe, le Règlement n° 4 sur les emprunts,
tel qu'il a été modifié, et le Contrat d'emprunt entre
la Banque et la Nacional Financiera, S.A.). Signé à
Washington le 26 janvier 1968

Texte authentique : anglais.

*Enregistré par la Banque internationale pour la reconstruction et le développe-
ment le 17 avril 1969.*

GUARANTEE AGREEMENT ¹

AGREEMENT, dated January 26, 1968, between UNITED MEXICAN STATES (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Nacional Financiera, S.A. (hereinafter called the Borrower), which agreement and the schedules herein referred to are hereinafter called the Loan Agreement,² the Bank has agreed to make to the Borrower a loan in various currencies equivalent to twenty-five million dollars (\$25,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to enter into this Guarantee Agreement ; and

WHEREAS the Guarantor in consideration of the Bank's entering into the Loan Agreement has agreed to enter into this Guarantee Agreement ;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961 as amended February 9, 1967,³ subject, however, to the modification thereof set forth in Section 1.01 of the Loan Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

Article II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part in this Guarantee Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the interest and other charges on, the Loan, the principal of and interest on the Bonds,

¹ Came into force on 20 September 1968, upon notification by the Bank to the Government of Mexico.

² See p. 334 of this volume.

³ See p. 332 of this volume.

and the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, all as set forth in the Loan Agreement and in the Bonds.

Article III

Section 3.01. (a) The Guarantor shall carry out and operate the Project described in Schedule 1 to this Guarantee Agreement with due diligence and efficiency and in conformity with sound engineering, agricultural, economic and financial standards and practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Except as the Bank shall otherwise agree, the Guarantor shall cause the public works included in the Project to be constructed, rehabilitated or improved by contractors satisfactory to the Guarantor and the Bank employed under contracts providing therefor.

(c) The Guarantor shall furnish or cause to be furnished to the Bank, promptly upon their preparation, the plans, specifications and work schedules for the Project and any material modifications subsequently made therein, in such detail as the Bank shall reasonably request.

(d) Except as the Guarantor and the Bank shall otherwise agree, the Guarantor shall cause all goods financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.02. (a) The Guarantor shall exercise every right and recourse available to it to cause to be taken all such action as shall be required to assure that no use, other than for domestic uses, will reduce the amounts of water available for irrigation purposes on the Project and for agricultural and livestock processing in the Project area below the amounts needed therefor.

(b) The Guarantor shall take or cause to be taken all such action as shall be required to assure that : (i) the land included in the Project and the water made available therefor are, to the maximum extent possible, fully, effectively and promptly utilized for agricultural purposes ; and (ii) the rights-of-way necessary for the construction and operation of the Project are established free and clear of encumbrances and adequately protected against third parties.

(c) The Guarantor shall cause all works, facilities and equipment included in the Project to be adequately maintained, repaired and renewed in accordance with sound engineering and agricultural practices and standards and shall cause all dams, canals, structures and other works, facilities and equipment not included in the Project but necessary to the proper and efficient operation thereof to be operated and adequately maintained, repaired and renewed in accordance with such practices and standards.

Section 3.03. The Guarantor shall maintain or cause to be maintained records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof), to show the results achieved by irrigation of the land included in the Project and to reflect in accordance with consistently maintained sound accounting practices the administration, operations and financial condition with respect to the Project of the agency or agencies of the Guarantor responsible for the carrying out or operation of the Project or any part thereof, and shall enable the Bank's representatives to inspect the Project, the goods and any relevant records and documents.

Section 3.04. (a) The Guarantor and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, the Guarantor and the Bank shall from time to time, at the request of either of them, exchange views through their representatives with regard to the performance by the Guarantor of its obligations under this Guarantee Agreement, the administration, operations and financial condition with respect to the Project of the agency or agencies of the Guarantor responsible for the carrying out or operation of the Project or any part thereof, and other matters relating to the purposes of the Loan.

(b) The Guarantor shall furnish or cause to be furnished to the Bank all such relevant information as the Bank shall request concerning the expenditure of the proceeds of the Loan, the goods financed out of such proceeds, the Project, the administration, operations and financial condition with respect to the Project of the agency or agencies of the Guarantor responsible for the carrying out of the Project or any part thereof, the results achieved by irrigation of the land included in the Project, and the general status of the Loan. Such information shall include information with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor.

(c) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan.

(d) The Guarantor shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan, the maintenance of the service thereof or the performance by the Guarantor of its obligations under this Guarantee Agreement.

Section 3.05. It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any

assets of the Guarantor as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect ; provided, however, that the foregoing provisions of this Section shall not apply to : (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

As used in this Section (a) the term “ assets of the Guarantor ” includes assets of the Guarantor or of any of its political subdivisions or of any Agency and (b) the term “ Agency ” means any agency or instrumentality of the Guarantor or of any political subdivision of the Guarantor and shall include any institution or organization which is owned or controlled directly or indirectly by the Guarantor or by any political subdivision of the Guarantor or the operations of which are conducted primarily in the interest of or for the account of the Guarantor or any political subdivision of the Guarantor.

Section 3.06. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes and free from all restrictions imposed under the laws of the Guarantor or laws in effect in its territories ; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 3.07. This Guarantee Agreement, the Loan Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 3.08. Except as the Bank and the Guarantor shall otherwise agree, the Guarantor undertakes to insure any imported goods financed out of the proceeds of the Loan against marine, transit and other hazards incident to acquisition, transportation and delivery thereof to the place of use or installation, and any indemnity under such insurance shall be payable in a currency freely usable by the Guarantor to replace or repair such goods.

Section 3.09. The Guarantor shall make available or cause to be made available, promptly as needed, medium and long-term agricultural credit on reasonable terms to farmers in the Project areas in order to enable such