
LOAN NUMBER 450 ME

Guarantee Agreement

(Third Irrigation Project)

BETWEEN

UNITED MEXICAN STATES

AND

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

DATED MAY 25, 1966

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AGREEMENT, dated May 25, 1966 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 therein referred to are hereinafter called the Loan Agreement, the Bank has agreed to make to the Borrower a loan in various currencies equivalent to nineteen million dollars (\$19,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to enter into this Agreement; and

WHEREAS the Guarantor in consideration of the Bank's entering into the Loan Agreement has agreed to enter into this 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, subject, however, to the modifications 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.

SECTION 1.02. Wherever used in this Guarantee Agreement, unless the context otherwise requires, the several terms, defined in Section 1.02 of the Loan Agreement shall have the respective meanings therein set forth.

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, 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 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 or rehabilitated and 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.

SECTION 3.02. 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 in the territories of the Guarantor exclusively in the carrying out of the Project.

SECTION 3.03. (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 below the amounts needed therefor.

(b) The Guarantor shall continue to take all such action as shall be required to assure that 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.

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

SECTION 3.04. 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; shall enable the Bank's representatives to inspect the Project, the goods and any relevant records and documents; and shall furnish or cause to be furnished to the Bank all such pertinent information as the Bank shall reasonably request

concerning the expenditure of the proceeds of the Loan, the Project, the goods financed out of such proceeds, the results achieved by irrigation of the land included in the Project, and 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.

SECTION 3.05. (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. On the part of the Guarantor, 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.

(b) 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.

(c) 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 or the maintenance of the service thereof or the performance by the Guarantor of its obligations under this Guarantee Agreement, or which materially affects the carrying out or operation of the Project.

SECTION 3.06. 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 or (iii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods.

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 account of the Guarantor or any political subdivision of the Guarantor.

SECTION 3.07. 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 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 3.08. 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 3.09. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid free from all restrictions imposed under the laws of the Guarantor or laws in effect in its territories.

SECTION 3.10. The Guarantor shall satisfy the Bank that adequate arrangements have been made to insure the goods financed out of the proceeds of the Loan against risks incident to their purchase and importation into the territories of the Guarantor and delivery to the sites of the Project.

SECTION 3.11. (a) The Guarantor shall cause the water charges levied for operation and maintenance of the Project to be set and maintained at levels necessary to provide: (i) revenues sufficient to cover all operating and maintenance costs, and (ii) reasonable sums of money for repair of damage to the Project caused by floods or other hazards.

(b) The Guarantor shall make and at all times maintain suitable provision, satisfactory in form and substance to the Guarantor and the Bank, for the recovery, on reasonable terms and conditions, from the users of irrigation waters within the areas of the Project and other beneficiaries, if any, of the Project facilities, of as much as practicable of the monies invested by the Guarantor in the Project together with reasonable interest thereon.

(c) The Guarantor shall cause the agency or agencies responsible for the assessment and collection of all charges, fees and taxes levied for the use of irrigation water or for

other benefits accruing within the areas of the Project from time to time to: (i) review such charges, fees and taxes in order to verify that they are adequate to provide the Guarantor with such revenues as are required to satisfy the provisions of paragraphs (a) and (b) of this Section; and (ii) take all necessary steps promptly to collect such charges, fees and taxes.

SECTION 3.12. The Guarantor shall make available or cause to be made available, promptly as needed, medium and short-term agricultural credit on reasonable terms to farmers in the areas of the Project in order to enable such farmers, among other things, to carry out the necessary on-farm works and make full, prompt and productive use of their land and the Project facilities.

SECTION 3.13. The Guarantor shall cause the agricultural extension services (including demonstration programs) to farmers in the Project areas to be improved and expanded with a view to providing such farmers with effective guidance in the productive utilization of their land and the Project facilities.

SECTION 3.14. The Guarantor shall take or cause to be taken all action (including, if necessary, the issuance and application of suitable regulations) which shall be necessary on its part to ensure effective control of: (a) underground waters in the Región Lagunera Irrigation District of the Project; and (b) the annual cropping patterns in the Región Lagunera Irrigation District of the Project in order, among other things, for crops grown in such District to conform to the amount of water available to the Project area.

ARTICLE IV

SECTION 4.01. The Guarantor shall endorse, in accordance with the provisions of the Loan Regulations, its guarantee on the Bonds to be executed and delivered by the Bor-

rower. Nacional Financiera, S.A. and such person or persons as it shall designate in writing are designated as the authorized representatives of the Guarantor for the purposes of Section 6.12(b) of the Loan Regulations.

ARTICLE V

SECTION 5.01. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations:

For the Guarantor:

Secretario de Recursos Hidráulicos
Paseo de la Reforma 69
Mexico, D.F., Mexico

Alternative address for cablegrams and radiograms:

SECRETARIA RECURSOS HIDRAULICOS
Mexico, D.F.

For the Bank:

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

Alternative address for cablegrams and radiograms:

INTBAFRAD
Washington, D.C.

SECTION 5.02. The *Secretario de Recursos Hidráulicos* of the Guarantor is designated for the purposes of Section 8.03 of the Loan Regulations.

SECTION 5.03. If the Loan Agreement terminates pursuant to Section 7.03 thereof, this Guarantee Agreement and all obligations of the parties hereunder shall terminate.

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

UNITED MEXICAN STATES
By: NACIONAL FINANCIERA, S.A.

By /s/ Fco. RUIZ DE LA PEÑA
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ J. BURKE KNAPP
Vice President

SCHEDULE 1**Description of the Project**

1. The Project consists of the rehabilitation and improvement of the public irrigation and drainage works serving about 85,000 hectares of land situated within the Región Lagunera Irrigation District and about 10,000 hectares of land situated within the San Juan del Río Irrigation District in order to: (i) ensure a dependable supply of water to such land, and (ii) reduce flood damage.

2. The main works included in the Project are:

I. *Región Lagunera Irrigation District*

- (a) Construction at Las Tórtolas of a rolled, earth-fill dam about 34 meters high and about 500 meters long, and related structures;
- (b) Construction of new canals and distribution facilities, consisting of about 1,000 kilometers of concrete-lined canals and about 1,300 water control structures;
- (c) Land leveling on up to about 85,000 hectares; and
- (d) Construction or rehabilitation of about 500 kilometers of roads and construction of houses for ditch-riders.

II. *San Juan del Río Irrigation District*

- (a) Construction of the Miguel Hidalgo Dam which is to be a rolled, earth-fill dam about 2,200 meters long and about 26 meters above the streambed, and related structures;
- (b) Construction of a feeder canal about 15 kilometers long;
- (c) Remodeling of the existing distribution system through construction of about 110 kilometers of

new concrete-lined canals and reconditioning of about 40 kilometers of existing canals, and erection of about 300 canal structures, all laterals to be concrete lined and sub-laterals to remain unlined;

- (d) Construction of about 16 kilometers of surface drains;
- (e) Land leveling on up to about 10,000 hectares; and
- (f) Construction or improvement of about 120 kilometers of roads and construction of houses for ditch-riders.

3. The Project also includes: (a) the establishment and operation of a program of salinity control in the Región Lagunera Irrigation District whereby annual testing of salinity is to be conducted at several levels of the soil profile in test holes located in representative areas of the District; and (b) the completion of detailed soil surveys in the San Juan del Río Irrigation District for use in the planning of farm units.

* * * * *

The works included in part I of the Project are expected to be completed in about 5 years and those included in part II thereof, in about 4 years. The studies provided for in paragraph 3(b) above will be completed within one year after the Effective Date.