

No. 2069

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
ICELAND**

**Loan Agreement—*Sog and Laxa Projects*—(with annexed
Loan Regulations No. 3). Signed at Washington, on
20 June 1951**

**Letter-Agreement concerning special commitments. Wash-
ington, 18 October 1951**

Official texts: English.

*Registered by the International Bank for Reconstruction and Development on
28 January 1953.*

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
ISLANDE**

**Contrat d'emprunt — *Projets du Sog et du Laxá* — (avec,
en annexe, le Règlement n° 3 sur les emprunts). Signé
à Washington, le 20 juin 1951**

**Accord par lettre concernant des engagements spéciaux.
Washington, 18 octobre 1951**

Textes officiels anglais.

*Enregistrés par la Banque internationale pour la reconstruction et le développement
le 28 janvier 1953.*

No. 2069. LOAN AGREEMENT¹ (*SOG AND LAXA PROJECTS*) BETWEEN THE REPUBLIC OF ICELAND AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 20 JUNE 1951

AGREEMENT, dated June 20, 1951, between the REPUBLIC OF ICELAND (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

Article I

SPECIAL DEFINITIONS

Section 1.01. Except where the context otherwise requires, the following terms have the following meanings wherever used in this Agreement or any Schedule hereto :

- (1) The term " Sog " means Sogsvirkjunin (The Hydroelectric Development of the Sog), an entity organized and existing under the laws of the Borrower for the purpose of constructing and operating a power development on the Sog River.
- (2) The term " Laxa " means Laxárvirkjunin (The Hydroelectric Development of the Laxá), an entity organized and existing under the laws of the Borrower for the purpose of constructing and operating a power development on the Laxá River.
- (3) The term " Sog Project " means the project described in Part I² of Schedule 2 to this Agreement, as such Schedule shall be amended from time to time by agreement between the Bank and the Borrower.
- (4) The term " Laxa Project " means the project described in Part II² of Schedule 2 to this Agreement, as such Schedule shall be amended from time to time by agreement between the Bank and the Borrower.
- (5) The term " pounds sterling " and the sign " £ " mean pounds sterling in currency of the United Kingdom of Great Britain and Northern Ireland.

¹ Came into force on 21 July 1951 upon notification by the Bank to the Government of Iceland.

² See p. 316 of this volume.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions hereinafter in this Agreement set forth or referred to, the sum of eight hundred seventy-five thousand pounds sterling (£875,000) or the equivalent thereof in currencies other than pounds sterling.

Section 2.02. The parties to this Agreement accept all the provisions of Loan Regulations No. 3¹ of the Bank dated December 6, 1950 (hereinafter called the Loan Regulations), a copy of which has been furnished to the Borrower, with the same force and effect as if they were fully set forth herein; provided, however, that the term "Project" as defined in the Loan Regulations shall be deemed to refer to the Projects, i.e., the Sog Project and the Laxa Project, or either of them, as the context may require.

Section 2.03. The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan. The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in the Loan Regulations.

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

Section 2.05. The Borrower shall pay interest at the rate of four and three-eighths per cent ($4\frac{3}{8}\%$) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

Section 2.06. Interest and commitment charge shall be payable semi-annually on June 1 and December 1 in each year.

Section 2.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1² to this Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied exclusively to the cost of goods which will be required for the carrying out of the Projects as described in Schedule 2 to this Agreement. The specific

¹ See p. 316 of this volume.

² See p. 314 of this volume.

goods to be purchased out of the Loan shall be determined by agreement between the Bank and the Borrower, and the list of such goods may be modified from time to time by agreement between them.

Section 3.02. The Borrower shall cause all goods purchased in whole or in part with the proceeds of the Loan to be used in the territories of the Borrower exclusively in the carrying out of the Projects.

Article IV

BONDS

Section 4.01. The Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in the Loan Regulations.

Section 4.02. The Minister of Finance of the Borrower and such person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 6.12 of the Loan Regulations.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall cause the carrying out of the Projects to proceed with due diligence and efficiency and in conformity with sound engineering and financial practices.

(b) The Borrower shall cause to be furnished to the Bank, promptly upon their preparation, the plans and specifications for the Projects and any material modifications subsequently made therein.

(c) The Borrower shall cause to be maintained records showing the use made of the goods and the progress of the Projects (including the cost thereof) and the financial condition and operations of Sog and Laxa; shall enable the Bank's representatives to examine the Projects, the goods and any relevant records and documents; and shall furnish to the Bank all such information as the Bank shall reasonably request concerning the goods, the Projects, and the financial condition and operations of Sog and Laxa.

Section 5.02. The Borrower shall make arrangements satisfactory to the Bank with Sog in respect of the Sog Project, and with Laxa in respect of the Laxa Project for the carrying out of the Borrower's obligations under Section 5.01 of this Agreement.

Section 5.03. (a) The Borrower and the Bank shall cooperate fully to assure that the purposes of the Loan shall be accomplished. To that end,

each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Borrower, such information will include information with respect to financial and economic conditions in the territories of the Borrower and the international balance of payments position of the Borrower.

The Borrower and the Bank shall from time to time exchange views with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof; and the Borrower will promptly inform the Bank of any condition which shall arise that shall prevent, obstruct or interfere with the accomplishment of the purposes of the Loan or the maintenance of the service thereof, or threaten to do so.

(b) If the Borrower, or any of its political subdivisions, or any agency of any of them shall propose to incur any substantial external debt, the Borrower shall notify the Bank promptly of the particular proposal and, before the proposed action is taken, shall afford to the Bank all opportunity which is reasonably practicable in the circumstances to exchange views with the Borrower with respect thereto; provided, however, that the foregoing provisions shall not apply to the following :

- (i) the incurring of additional external debt through utilization, in accordance with the terms of any credit established prior to the date of this Agreement, of any unused amounts available under such credit; or
- (ii) the entering into international payments or similar agreements the term of which is not more than one year and under which the transactions on each side are expected to balance over the period of the agreement; or
- (iii) the incurring in the ordinary course of its business by Landsbanki Islands (National Bank of Iceland), or by any successor institution performing the functions of a central bank, of indebtedness maturing not more than eighteen months after the date of incurring of such indebtedness.

(c) The Borrower will afford to the Bank all reasonable opportunity for accredited representatives of the Bank to visit freely any part of the territories of the Borrower for purposes consistent with the spirit and purposes of the Loan.

Section 5.04. It is the mutual intention of the Borrower 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 Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower or any of its political subdivisions or any agency of the Borrower or any such political subdivision as security for any external debt, such lien shall 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 shall be made to that effect; provided, however, that this Section shall not apply to any of the following:

- (i) to any lien created on any property at the time of purchase thereof solely as security for the payment of the purchase price of such property; or
- (ii) to any pledge of commercial goods or of the proceeds of sale thereof to secure debt maturing not more than one year after its date and to be paid out of the proceeds of sale of such commercial goods; or
- (iii) to any lien created by Landsbanki Islands (National Bank of Iceland), or by any successor institution performing the functions of a central bank, on any of its assets in the ordinary course of its banking business to secure any indebtedness maturing not more than one year after its date.

Section 5.05. The Borrower covenants that the principal of, and interest and other charges on, the Loan and the Bonds, will be paid without deduction for and free from any taxes imposed by the Borrower or any taxing authority thereof or therein and will be paid free from all restrictions of the Borrower, its political subdivisions or any agency of any of them. The foregoing provisions of this Section shall not apply to taxation of payments under the provisions of any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Borrower.

Section 5.06. The Borrower covenants that the Loan Agreement and the Bonds will be free of any issue, stamp or other tax imposed by the Borrower or any taxing authority thereof or therein.

Section 5.07. The Borrower shall satisfy the Bank that adequate arrangements have been made to insure the goods financed with the proceeds of the Loan against risks incident to their purchase and importation into the territories of the Borrower.

Section 5.08. It is the mutual understanding of the parties hereto that Sog, Laxa and the Municipality of Reykjavik are primarily responsible for the carrying out of the Projects and for the provision of the funds required therefor. If at any time, however, it appears probable that Sog, Laxa or the Municipality of Reykjavik will not have the necessary funds either in currency of the Borrower or in other currencies to meet the cost of the Projects payable in such currencies, the Borrower shall promptly make satisfactory arrangements to ensure that the necessary funds are provided.

Article VI

REMEDIES OF THE BANK

Section 6.01. If any event specified in paragraphs (a) or (b) of Section 5.02 of the Loan Regulations shall occur and shall have continued for a period of thirty days or if an event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall have continued for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement or in the Bonds to the contrary notwithstanding.

Section 6.02. The following is specified pursuant to Section 5.02(h) of the Loan Regulations as an additional event giving the Bank the power to suspend the right of the Borrower to make withdrawals from the Loan Account : If, in the opinion of the Bank, sufficient funds are not available to meet the cost of the Projects as provided in Section 5.08 of this Agreement.

Article VII

EFFECTIVE DATE; TERMINATION

Section 7.01. The following is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 9.01 (b) of the Loan Regulations : the Borrower shall have made the arrangements provided for in Section 5.02 of this Agreement.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 9.02 (c) of the Loan Regulations, to be included in the opinion to be furnished to the Bank : that the arrangements referred to in Section 5.02 of this Agreement are valid and binding on the Borrower, Sog and Laxa, respectively.

Section 7.03. The date specified for the purposes of Section 9.04 of the Loan Regulations is August 1, 1951.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be June 30, 1953.

Section 8.02. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Borrower : Republic of Iceland, Ministry of Finance, Reykjavik, Iceland, or Republic of Iceland, Legation of Iceland, 909 16th Street, N. W., Washington 6, D. C., U.S.A.

For the Bank: International Bank for Reconstruction and Development, 1818 H Street, N. W., Washington 25, D. C., U.S.A.

Section 8.03. The Minister of Finance of the Borrower in office at the time in question is designated for the purposes of Section 8.03 of the Loan Regulations.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this 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.

Republic of Iceland:
By Thor THORS
Authorized Representative

International Bank for Reconstruction and Development:
By Eugene R. BLACK
President

SCHEDULE 1
AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal</i>	<i>Principal Amount Outstanding After Each Payment</i>	<i>Date Payment Due</i>	<i>Payment of Principal</i>	<i>Principal Amount Outstanding After Each Payment</i>
December 1, 1955	—	£875,000	December 1, 1964	£25,000	£507,000
June 1, 1956	£17,000	858,000	June 1, 1965	25,000	482,000
December 1, 1956	17,000	841,000	December 1, 1965	26,000	456,000
June 1, 1957	18,000	823,000	June 1, 1966	26,000	430,000
December 1, 1957	18,000	805,000	December 1, 1966	27,000	403,000
June 1, 1958	18,000	787,000	June 1, 1967	27,000	376,000
December 1, 1958	19,000	768,000	December 1, 1967	28,000	348,000
June 1, 1959	19,000	749,000	June 1, 1968	28,000	320,000
December 1, 1959	20,000	729,000	December 1, 1968	29,000	291,000
June 1, 1960	20,000	709,000	June 1, 1969	30,000	261,000
December 1, 1960	21,000	688,000	December 1, 1969	30,000	231,000
June 1, 1961	21,000	667,000	June 1, 1970	31,000	200,000
December 1, 1961	21,000	646,000	December 1, 1970	32,000	168,000
June 1, 1962	22,000	624,000	June 1, 1971	32,000	136,000
December 1, 1962	22,000	602,000	December 1, 1971	33,000	103,000
June 1, 1963	23,000	579,000	June 1, 1972	34,000	69,000
December 1, 1963	23,000	556,000	December 1, 1972	34,000	35,000
June 1, 1964	24,000	532,000	June 1, 1973	35,000	—

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05(b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than 5 years before maturity	1½%
More than 5 years but not more than 10 years before maturity	1%
More than 10 years but not more than 15 years before maturity	1¾%
More than 15 years before maturity.	2½%

SCHEDULE 2

DESCRIPTION OF THE PROJECTS

PART I. *The Sog Project*

The Sog project consists of the construction of a dam across the Sog River, about 31 miles east of Reykjavík, and special headwater controls in the existing dam across the Sog located about one-half mile upstream from the new dam site to assure the flow required for the new power station; the construction of an underground power house (designed to house three units of 15,500 kw. each) and the installation therein of two turbo generating units of 15,500 kw. each; the erection of a tie line between the existing and the new power house; the construction of a new substation on the outskirts of Reykjavík, and the erection of a single circuit overhead transmission line to carry energy from the new power house to the new substation; and the installation of new underground cables, transformers and other equipment in the Municipality of Reykjavík for the expansion of the distribution system of the Reykjavík municipal power works.

PART II. *The Laxa Project*

The Laxa project consists of the construction of a dam across the Laxá River at Brúar Falls; the construction of a new power house about 1,250 feet below the dam and installation therein of an 8,000 kw. turbo generating unit; the construction of a wood stave pipe about 1,140 feet long, which will conduct water from the intake gate of the dam to a steel surge tower; the installation of a steel penstock about 110 feet long leading from the surge tower to the new power house; the erection of a single circuit transmission line from this power house to an extension of an existing substation in Akureyri, and the installation in the substation of additional equipment.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No. 3, DATED 6 DECEMBER 1950

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO MEMBER GOVERNMENTS

[Not published herein. See p. 170 of this volume.]

LETTER-AGREEMENT¹ BETWEEN THE REPUBLIC OF ICELAND AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT CONCERNING SPECIAL COMMITMENTS. SIGNED AT WASHINGTON, ON 18 OCTOBER 1951

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H Street, N. W.
Washington 25, D. C.

October 18, 1951

Republic of Iceland
Ministry of Finance
Reykjavik, Iceland

Gentlemen :

Reference is made to Loan Agreement Number 46 IC between the Republic of Iceland and this Bank, dated June 20, 1951,² and to Loan Regulation No. 3³ of the Bank which the Agreement incorporates by reference. Section 4.02 of such Regulations provides that the Bank may, at the Borrower's request, enter into special commitments and that the charge therefor shall be agreed upon between the Bank and the Borrower. The Bank believes that a charge of $\frac{1}{2}$ of 1% per annum (in addition to the charge of $\frac{3}{4}$ of 1% provided in Section 2.04 of the Loan Agreement) is appropriate for such transactions.

You have already requested, and the Bank has approved, a special commitment as set forth in your Application G 3-1-1, dated October 4.

We therefore request that you agree (1) that the charge specified in Section 4.02 of Loan Regulation No. 3 be made at the rate of $\frac{1}{2}$ of 1% per annum on all special commitments entered into by the Bank at your request including the above-mentioned one; (2) that such charge shall accrue from the date on which the Bank enters into such commitment to the date or dates on which such obligation is liquidated either by disbursement or cancellation; and (3) that such charge shall be payable in Pounds sterling semi-annually on June 1

¹ Came into force on 18 October 1951 by signature.

² See p. 302 of this volume.

³ See p. 316 of this volume.

and December 1 of each year together with other charges due under the Loan, in lieu of being debited to the Loan Account as a withdrawal therefrom as provided in Section 4.02 of the Regulations.

You will note that we have provided that this charge shall be payable in the same manner as all other charges accruing under the Loan Agreement. We believe that you will agree that it is preferable for all concerned that this charge for special commitments, which will be small in relation to other charges, be payable in this way.

Please indicate your agreement with the foregoing by signing and returning the enclosed copy of this letter.

Sincerely yours,

Henry W. RILEY
Assistant Treasurer

Enclosure

cc : Republic of Iceland
Legation of Iceland
909—16th Street, N. W.
Washington 6, D. C.

Confirmed :

Republic of Iceland :
By Eysteinn JÓNSSON
Authorized Representative
