

No. 2072

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

Guarantee Agreement—*Río Elqui Project*—(with annexed Loan Regulations No. 4 and Loan Agreement—*Río Elqui Project*—between the Bank and Corporación de Fomento de la Producción). Signed at Washington, on 10 October 1951

Official text: English.

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

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

Contrat de garantie — *Projet de l'Elqui* — (avec, en annexe, le Règlement n° 4 sur les emprunts et le Contrat d'emprunt — *Projet de l'Elqui* — entre la Banque et la Corporación de Fomento de la Producción). Signé à Washington, le 10 octobre 1951

Texte officiel anglais.

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

No. 2072. GUARANTEE AGREEMENT¹ (*RIO ELQUI PROJECT*) BETWEEN THE REPUBLIC OF CHILE AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 10 OCTOBER 1951

AGREEMENT, dated October 10, 1951, between THE REPUBLIC OF CHILE (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 Corporación de Fomento de la Producción (hereinafter called the Borrower), which agreement and the Schedules therein referred to are hereinafter called the Loan Agreement,² the Bank has agreed to make to the Borrower a loan in the aggregate principal amount of one million three hundred thousand dollars (\$1,300,000), or the equivalent in other currencies, on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agrees to guarantee such Loan and the obligations of the Borrower in respect thereof; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to guarantee such Loan and the obligations of the Borrower in respect thereof;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

Section 1.01. The parties to this Agreement accept all the provisions of Loan Regulations No. 4² of the Bank, dated December 6, 1950, subject to the modifications³ thereof contained in the Loan Agreement (such Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), a copy of which has been furnished to the Guarantor, with the same force and effect as if they were fully set forth herein.

¹ Came into force on 15 February 1952 upon notification by the Bank to the Government of Chile.

² See p. 376 of this volume.

³ See p. 388 of this volume.

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, commitment charge and service charge, if any, on the Loan, the principal of, and interest on the Bonds, the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, and the punctual performance of all the covenants and agreements of the Borrower, all as set forth in the Loan Agreement and in the Bonds.

Article III

Section 3.01. The Guarantor and the Bank will co-operate to the fullest possible extent in order to assure that the purposes of the Loan shall be accomplished. To that end each of them shall from time to time furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. The Guarantor and the Bank will from time to time and as often as the circumstances shall require exchange views through their accredited representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof, and the Guarantor will afford all reasonable opportunity for accredited representatives of the Bank to visit freely any part of the territories of the Guarantor for purposes related to the Loan.

Section 3.02. 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 or any of its political subdivisions or any of its agencies or any agency of any of its political subdivisions, as security for any external debt, such lien shall *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 shall be made to that effect. However 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; (ii) any lien on commercial goods to secure debt maturing by its terms not more than one year after the date on which it is incurred and to be paid out of the proceeds of sale of such commercial goods.

Section 3.03. 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 by the Guarantor or any taxing authority thereof or therein and free from all restrictions of the Guarantor or any of its political subdivisions or any agency of the Guarantor or of any such political subdivision. The foregoing provision of this Section shall not apply to taxes on 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. The Loan Agreement, Guarantee Agreement and the Bonds shall be free of any issue, stamp or other tax imposed by the Guarantor or any taxing authority thereof or therein.

Section 3.04. The Guarantor covenants that it will not take or permit any of its political subdivisions or agencies to take any action which would prevent or interfere with the performance by the Borrower of any of the covenants, agreements and obligations of the Borrower in the Loan Agreement or the Loan Regulations contained, and will take or cause to be taken all reasonable action which shall be necessary in order to enable the Borrower to perform such covenants, agreements or obligations.

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 Borrower. The Minister of Finance of the Guarantor and such person or persons as he 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 :

(a) For the Guarantor : The Republic of Chile, c/o Corporación de Fomento de la Producción, 37 Wall Street, New York, New York, United States of America.

(b) For the Bank : International Bank for Reconstruction and Development, 1818 H Street, N.W., Washington 25, District of Columbia, United States of America.

Section 5.02. The Minister of Finance of the Guarantor 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 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.

The Republic of Chile :

By F. NIETO DEL RÍO
Authorized Representative

International Bank for Reconstruction and Development :

By Eugene R. BLACK
President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No. 4, DATED 6 DECEMBER 1950

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO BORROWERS OTHER THAN
MEMBER GOVERNMENTS

[*Not published herein. See p. 222 of this volume.*]

LOAN AGREEMENT

(RÍO ELQUI PROJECT)

AGREEMENT, dated October 10, 1951, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and CORPORACIÓN DE FOMENTO DE LA PRODUCCIÓN (hereinafter called the Borrower).

Article I

LOAN REGULATIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4¹ of the Bank, dated December 6, 1950, as modified by Schedule 3² to this Loan Agreement (such 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.

¹ See above.

² See p. 388 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 Loan Agreement set forth or referred to, the sum of one million three hundred thousand dollars (\$1,300,000), or the equivalent thereof in currencies other than dollars.

Section 2.02. 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. Notwithstanding anything to the contrary contained in this Loan Agreement, unless the Bank shall otherwise agree :

(i) The Borrower shall not be entitled to make withdrawals from the Loan Account in respect of goods required for the carrying out of Phase I of the Project unless technical experts mutually satisfactory to the Bank and the Borrower shall be retained to aid in carrying out Phase I of the Project and (ii) the Borrower shall not be entitled to make withdrawals from the Loan Account in respect of goods required for the carrying out of Phase II of the Project until Phase I of the Project shall have progressed sufficiently to enable the Borrower to present to the Bank evidence satisfactory to the Bank of the existence of a supply of groundwater in the Río Elqui Valley sufficient to justify proceeding with Phase II of the Project, and the Bank shall have notified the Borrower that such evidence is satisfactory.

Section 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-quarters 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 2.04. The Borrower shall pay interest at the rate of four and three-eighths per centum ($4\frac{3}{8}\%$) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

Section 2.05. Interest and commitment charge shall be payable semi-annually on April 1 and October 1 in each year.

Section 2.06. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule I¹ to this Loan 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 Project as described in Schedule 2² to this Loan Agreement. The specific goods to be purchased

¹ See p. 386 of this volume.

² See p. 388 of this volume.

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

Section 3.02. The Borrower shall deliver or cause to be delivered to Dirección General de Obras Públicas (hereinafter called DOP) all goods purchased with the proceeds of the Loan. 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 Guarantor exclusively in the carrying out of the Project; provided that after the use contemplated for the goods in Phase I of the Project shall have been completed, such goods shall, to the extent possible, be utilized for similar surveys and tests in other parts of the territories of the Guarantor.

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 Executive Vice President 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 (a) of the Loan Regulations.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall cause the Project to be carried out and completed with due diligence and efficiency.

(b) The Borrower shall maintain or cause to be maintained records showing the use made of the goods and the progress of the Project (including the cost thereof) and to reflect the financial condition of the Borrower and of the Project and the operations and transactions of the Borrower and of DOP in connection with the Project; shall enable the Bank's representatives to examine the Project, 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 Project, the financial condition and operations of the Borrower and the transactions of the Borrower and DOP in connection with the Project.

(c) The Borrower shall cause the operations and transactions of the Borrower and of DOP in respect of the Project to be administered and accounted for separately from other activities of the Borrower and of DOP.

(d) The Borrower shall make arrangements satisfactory to the Bank with DOP for the carrying out of the Project, including assurances to enable the Borrower to carry out the covenants contained in this Section 5.01 of this Agreement.

Section 5.02. (a) The Bank and the Borrower 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. The Borrower and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof; and the Borrower shall promptly inform the Bank of any condition that shall interfere with, or threaten to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(b) If the Borrower shall propose to incur any substantial external debt, the Borrower will inform the Bank of the proposal and, before taking the proposed action, will afford 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: (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 incurring by the Borrower in the ordinary course of its business of debt maturing by its terms not more than one year after the date on which it is incurred.

Section 5.03. 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 assets of the Borrower. 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 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 shall 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; (ii) any lien on commercial goods to secure a debt maturing not more than one year after its incurrence and to be paid out of the proceeds of sale of such commercial goods; or (iii) any lien created in the ordinary course of the Borrower's business to secure a debt maturing not more than one year after its incurrence.

Section 5.04. The Borrower shall pay or cause to be paid any and all taxes that shall be imposed upon this Agreement, the Bonds or the Guarantee Agreement or the execution or delivery thereof, or the registration thereof with any agency or official of the Guarantor, or the payment of principal, interest or other charges thereunder. Such principal, interest and other charges shall be paid without deduction for and free from any taxes imposed by the Guarantor or any taxing authority thereof or therein. The foregoing provisions of this Section shall not apply to taxes on 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 5.05. 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 Guarantor.

Section 5.06. If at any time it appears that completion of the Project may be delayed because sufficient funds in currency of the Guarantor are not available to DOP, the Borrower shall make available to DOP, promptly and upon reasonable terms, the necessary amounts in currency of the Guarantor to enable DOP to proceed with the Project without delay.

Article VI

REMEDIES OF THE BANK

Section 6.01. If any event specified in paragraph (a) or paragraph (b) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days or if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall continue 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 Loan Agreement or in the Bonds to the contrary notwithstanding.

Section 6.02. The following is specified as an additional event for the purposes of Section 5.02 of the Loan Regulations: Any condition shall exist which shall give the Bank reasonable cause to believe (i) that the Project is unsound or not feasible, or (ii) that the amount of currency of the Guarantor required for carrying out the Project will not be available, and the Borrower, after having been accorded a reasonable opportunity for consultation with the Bank, is unable to show that it can provide, promptly and upon reasonable terms, the currency of the Guarantor required.

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 (c) of the Loan Regulations: the Borrower shall have made the arrangements with DOP provided for in Section 5.01 of this Agreement.

Section 7.02. A date 90 days after the date of this Loan Agreement is hereby specified for the purposes of Section 9.04 of the Loan Regulations.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be December 31, 1954.

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

For the Bank: International Bank for Reconstruction and Development, 1818 H Street, N. W., Washington 25, D. C., United States of America.

For the Borrower: Corporación de Fomento de la Producción, 37 Wall Street, New York, New York, United States of America.

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.

International Bank for Reconstruction and Development :

By Eugene R. BLACK
President

Corporación de Fomento de la Producción :

By J. SCHNEIDER
Authorized Representative

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>
April 1, 1955	\$80,000	\$1,220,000	October 1, 1958 . . .	\$ 94,000	\$606,000
October 1, 1955 . . .	82,000	1,138,000	April 1, 1959	96,000	510,000
April 1, 1956	84,000	1,054,000	October 1, 1959 . . .	98,000	412,000
October 1, 1956 . . .	86,000	968,000	April 1, 1960	100,000	312,000
April 1, 1957	88,000	880,000	October 1, 1960 . . .	102,000	210,000
October 1, 1957 . . .	89,000	791,000	April 1, 1961	104,000	106,000
April 1, 1958	91,000	700,000	October 1, 1961 . . .	106,000	—

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 1 year before maturity	1/2%
More than 1 year and not more than 3 years before maturity	3/4%
More than 3 years and not more than 5 years before maturity	1%
More than 5 years and not more than 7 years before maturity	1 1/2%
More than 7 years before maturity	2%

SCHEDULE 2

DESCRIPTION OF THE PROJECT

Phase I

Phase I of the Project will consist of surveys and tests for the purpose of obtaining a reasonably accurate estimate of the amount of water which may be withdrawn from the alluvium of the Río Elqui Valley for irrigation. The work will consist of:

(a) A geophysical survey to determine by cross sections the size and shape of rock valley which underlies the alluvium in the Río Elqui Valley so that the volume of the water bearing strata may be determined.

(b) The drilling of approximately 10 wells in the lower aquifer averaging about 250 feet in depth each and approximately 6 wells in the upper aquifer averaging about 100 feet depth each, all of which will be test pumped for the purpose of determining the rate at which water can be withdrawn from each aquifer at different places in the Valley, and the drilling in the vicinity of the test wells of approximately 30 observation wells (which will not be pumped) averaging about 200 feet in depth each.

(c) Tests to determine the rate at which underground water flows downstream in both the upper and lower aquifers.

Phase II

Phase II of the Project will consist of the installation and placing into operation of permanent electrically driven pumping equipment on the wells which in Phase I are found to produce quantities of water adequate for economical pumping and the installation of the necessary generating and transmission equipment for the operation of the permanent pumping equipment.

SCHEDULE 3

MODIFICATION OF LOAN REGULATIONS No. 4¹

For the purposes of the Loan Agreement and the Guarantee Agreement, the second sentence of Section 2.02 of Loan Regulations No. 4 of the Bank, dated December 6, 1950, shall be deemed to read as follows:

“Such commitment charge shall accrue from the Effective Date or from December 10, 1951, whichever shall be the earlier, or from such other date as may be agreed upon between the Bank and the Borrower, to the respective dates on which amounts shall be withdrawn by the Borrower from the Loan Account as provided in Article IV or shall be cancelled pursuant to Article V.”

¹ See p. 376 of this volume.