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LOAN NUMBER 1046 IRN

Loan Agreement

(Third Agricultural Credit Project)

BETWEEN

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

AND

AGRICULTURAL DEVELOPMENT BANK OF IRAN

DATED OCTOBER 14, 1974

Public Disclosure Authorized

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DATED OCTOBER 14, 1974

LOAN AGREEMENT

AGREEMENT, dated October 14, 1974, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and the AGRICULTURAL DEVELOPMENT BANK OF IRAN (hereinafter called the Borrower).

ARTICLE I

General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated March 15, 1974, with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank, being hereinafter called the General Conditions).

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

(a) "Law" and "Charter" mean respectively Law dated the 29th of *Dey*, 1345, as amended by Law of 4th of *Ordibehesht*, 1347, of the Guarantor establishing the Borrower and the Charter of the Borrower enacted pursuant thereto, as such Law or Charter may be amended from time to time.

(b) "Rials" and "Rls" mean the currency of the Guarantor.

(c) "Prior Loan Agreement" means any outstanding loan agreement between the Bank and the Borrower dated prior to the date of this Agreement, and "Prior Loan" means any loan granted by the Bank to the Borrower pursuant thereto.

(d) "Loan Regulations" means the Regulations Concerning the Extension of Loans by the Agricultural Development Bank of Iran, approved on the 20th of *Azar*, 1347 (December 11, 1968) by the High Council of the Borrower, as amended to 30 *Bahman* 1352 (February 3, 1974), and as such Loan Regulations may be further amended from time to time.

(e) "Equity Regulations" means the Borrower's Regulations for Participation by the Agricultural Development Bank of Iran in the Equity Capital of Private Companies approved on 30 *Bahman* 1352 (February 3, 1974) by the High Council of the Borrower as such Equity Regulations may be amended from time to time.

(f) "sub-loan" means a loan granted or proposed to be granted by the Borrower and financed out of the proceeds of the Loan as provided for in the Loan Agreement, and "sub-borrower" means the beneficiary of a sub-loan.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to forty million dollars (\$40,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time, 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.

Section 2.03. The Closing Date shall be March 31, 1979 or such other date as shall be agreed between the Bank and the Borrower.

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

Section 2.05. The Borrower shall pay interest at the rate of eight per cent (8%) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semi-annually on January 1 and July 1 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

Execution of the Project

Section 3.01. The Borrower shall carry out the Project with due diligence and efficiency and in conformity with appropriate agricultural, administrative and financial standards and practices and in accordance with the Law, the Charter, the Loan Regulations and the Equity Regulations.

Section 3.02. Except as the Bank shall otherwise agree, (a) the goods and services required for the Project shall be procured in accordance with, and subject to, the provisions set forth in Schedule 4 to this Agreement, and (b) the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively for the Project.

Section 3.03. Except as the Bank and the Borrower shall otherwise agree, the Borrower in carrying out the Project, shall adhere to the policies and procedures set forth in Schedule 4 to this Agreement.

Section 3.04. (a) The Borrower shall maintain or cause to be maintained records adequate to identify the loans made under the Project, the goods and services 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) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower; shall enable the Bank's representatives to inspect the Project, the farms and other sites and plants included in the Project, the goods financed out of the proceeds of the Loan and any relevant records and documents; and shall furnish or cause to be furnished to the Bank all such information as the Bank shall reasonably request concerning the Project, the expenditure of the proceeds of the Loan, the loans made under the Project, the goods and services financed out of the proceeds of the Loan, and the administration, operations (including an annual forecast of its total lending operations) and financial condition of the Borrower.

(b) The Borrower shall exercise its rights in relation to each sub-loan made under the Project in such manner as to protect the interests of the Bank and of the Borrower.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. (a) The Borrower shall conduct its business and operations in accordance with sound agricultural, administrative and financial policies and

practices, and under the supervision of competent and experienced management. To that end, the Borrower, before making any loans, will complete a thorough appraisal of the loan application and satisfy itself that the proposed beneficiary will follow sound agricultural practices, in accordance with agreed investment plans, and that estimated results will be adequate to ensure a reasonable return on investment and due and punctual service of the loans. In particular, the Borrower shall satisfy itself regarding such technical aspects as adequacy and quality of water supply, ecological and climatological conditions affecting production, suitability of planting material, the introduction and use of such current inputs as shall be appropriate to the cropping program and soil conditions, and the adequacy of marketing arrangements.

(b) Except as the Bank shall otherwise agree, the Borrower shall at all times charge such interest rates on all its loans as shall be necessary when taken together with all other earnings of the Borrower, to provide the Borrower with revenues sufficient to: (i) cover all its operating expenditures and charges, including taxes, if any, and interest payments on borrowings; (ii) set up and maintain an adequate provision for bad or doubtful loans; and (iii) accumulate adequate reserves.

(c) Except as the Bank shall otherwise agree, but without limitation on the foregoing, the effective rate of interest on loans made by the Borrower after the date of this Agreement shall be not less than 8% per annum or such other rate as shall be agreed from time to time between the Bank and the Borrower, and sub-loans shall bear interest at the rates specified in Schedule 4 hereto.

(d) The Borrower shall continue to maintain adequate provision for protecting itself against losses in connection with the service of the Loan resulting from changes in the exchange rate between Rials and the currency or currencies in which such service is to be met.

Section 4.02. The Borrower shall cause its sub-borrowers to take out and maintain with responsible insurers insurance against such risks and in such amounts as shall be consistent with sound practice.

Section 4.03. The Borrower shall make adequate provision satisfactory to the Bank for the utilization, in the Borrower's agricultural credit program, of the proceeds of repayment of principal of medium- and long-term loans under the Project to the extent that such proceeds are not required for purposes of servicing the Loan.

Section 4.04. The Borrower shall establish and maintain such procedures satisfactory to the Bank as shall be necessary to monitor and measure the results

of the investments of the beneficiaries of its credits, including the making of such arrangements with such beneficiaries as shall be required for the purpose of ensuring the availability of the relevant information.

Section 4.05. The Loan Regulations and the Equity Regulations shall not be amended without the prior concurrence of the Bank.

Section 4.06. The Borrower shall not make credits from its own resources on terms and conditions which are more favorable than those of the sub-loans.

ARTICLE V

Financial Covenants

Section 5.01. The Borrower shall maintain records adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition.

Section 5.02. The Borrower shall: (i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank, (ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, and (iii) furnish to the Bank such other information concerning the accounts and financial statements of the Borrower and the audit thereof as the Bank shall from time to time reasonably request.

Section 5.03. (a) The Borrower represents that at the date of this Agreement no lien exists on any of its assets as security for any debt.

(b) The Borrower undertakes that, except as the Bank shall otherwise agree: (i) if the Borrower shall create any lien on any of its assets as security for any debt, such lien will equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan, and that in the creation of any such lien express provision will be made to that effect; and (ii) if any lien shall be created on any assets of the Borrower, other than under (i) above, as security for any debt, the Borrower shall grant to the Bank an equivalent lien satisfactory to the Bank; provided, however, that the foregoing provisions of this paragraph shall not apply to: (A) 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 (B) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after the date on which it is originally incurred.

Section 5.04. Except as shall be otherwise agreed between the Bank and the Borrower, the Borrower shall not incur any debt if, after the incurrence of such debt, the Borrower's debt then incurred and outstanding would be greater than four times the Borrower's capital and surplus.

For the purposes of this Section:

(a) The term "debt" means any debt incurred by the Borrower and maturing on demand or more than one year after the date on which it is originally incurred.

(b) The term "incur" with reference to any debt includes any modification of the terms of payment of such debt. Debt shall be deemed to be incurred (i) under a loan contract or agreement, on the date and to the extent it is drawn down pursuant to such loan contract or agreement and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(c) Whenever in connection with this Section it shall be necessary to value in terms of Rials debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt.

(d) The term "capital and surplus" means the Borrower's total unimpaired capital, surplus and free reserves.

The foregoing provision supersedes any prior agreement between the Bank and the Borrower concerning the Borrower's debt-equity ratio.

ARTICLE VI

Remedies of the Bank

Section 6.01. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified, namely, a change shall have been made in the Law or in the Charter without the consent of the Bank.

Section 6.02. For the purposes of Section 7.01 of the General Conditions, the following additional event is specified, namely, the event specified in Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that arrangements satisfactory to the Bank and the Borrower have been made under which the Borrower will be indemnified by the Guarantor for any foreign-exchange loss resulting from changes in exchange rates in the borrowing and lending operations of the Borrower.

Section 7.02. The date January 13, 1975 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Addresses

Section 8.01. 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.

For the Borrower:

Agricultural Development Bank
of Iran
23 Takhte Jamshid Avenue
Tehran, Iran

Cable address:

AGRIFUND
Tehran

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, 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/ M. P. Benjenk
*Regional Vice President
Europe, Middle East and North Africa*

AGRICULTURAL DEVELOPMENT BANK OF IRAN

By /s/ Jahangir Amuzegar
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 amounts of the Loan to each Category and the percentage of eligible expenditures to be financed in each Category:

<i>Category</i>	<i>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</i>	<i>% of Expenditures to be Financed</i>
I. On-farm develop- ments entailing total new invest- ments not exceed- ing Rials 3.2 million, financed jointly with Bank Melli Iran, for land preparation (including irriga- tion and drainage facilities), crop establishment, purchase of ma- chinery, equipment and livestock, and building and con- struction	7,200,000	77% of disburse- ments effected by the Borrower
II. On-farm develop- ments involving total new investi- ments of more than Rials 3.2 million, for land prepara- tion (including irrigation and drainage facili- ties), crop estab- lishment, purchase of machinery, equipment and livestock, build- ings and construc- tion	26,900,000	60% of disburse- ments effected by the Borrower

<i>Category</i>	<i>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</i>	<i>% of Expenditures to be Financed</i>
III. Agribusiness development (vertically integrated production, processing, and marketing operations) for land preparation (including irrigation and drainage facilities), crop establishment, purchase of machinery, equipment and livestock, buildings and construction	4,600,000	60% of disbursements effected by the Borrower
IV. Agroindustry development (processing or marketing of agricultural products) involving new investments in buildings, construction, machinery and equipment	1,300,000	60% of disbursements effected by the Borrower
TOTAL	40,000,000	

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

(a) Disbursements made or to be made for loans approved by the Borrower before the date of this Agreement.

(b) Any sub-loan in a principal amount totalling, when added to any other sub-loan or credit made by the Borrower for the same project, Rials 20,000,000 or above, unless the Bank shall have approved such sub-loan.

3. If the estimate of disbursements under any Category shall decrease, the amount of the Loan then allocated to, and no longer required for, such Category may be reallocated, at the request of the Borrower, to any other Category, subject, to the approval of the Bank.

SCHEDULE 2**Description of the Project**

1. The Project forms part of the lending program of the Borrower for commercial farming, including livestock, agroindustrial operations such as processing, preparation, storage and marketing of agricultural products, and agribusinesses, by way of medium- and long-term sub-loans for investments in the production of crops, orchard establishment, dairy operations, sheep farming and poultry operations; for various agroindustrial and agribusiness operations; and, subject to the Bank's approval, for any other related purpose.
2. Under the Project, such sub-loans will be provided by the Borrower to agricultural producers, agroindustries and agribusinesses for investments in land improvement and development, on-farm irrigation, including water supply for livestock, machinery and equipment, buildings, construction and installations, including on-farm roads, planting material, including maintenance of non-bearing young orchards, and livestock.
3. The lending program of the Borrower includes lending, jointly with *Bank Melli Iran*, for small-scale agricultural projects, that is, those entailing total new investments not exceeding Rls. 3.2 million, as described in Schedule 4 to this Agreement.

SCHEDULE 3

Amortization Schedule

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
July 1, 1979	1,395,000
January 1, 1980	1,445,000
July 1, 1980	1,500,000
January 1, 1981	1,555,000
July 1, 1981	1,610,000
January 1, 1982	1,670,000
July 1, 1982	1,730,000
January 1, 1983	1,790,000
July 1, 1983	1,855,000
January 1, 1984	1,925,000
July 1, 1984	1,995,000
January 1, 1985	2,065,000
July 1, 1985	2,140,000
January 1, 1986	2,220,000
July 1, 1986	2,300,000
January 1, 1987	2,380,000
July 1, 1987	2,470,000
January 1, 1988	2,560,000
July 1, 1988	2,650,000
January 1, 1989	2,745,000

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

Premiums on Prepayment

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05(b) of the General Conditions:

<i>Time of Prepayment</i>	<i>Premium</i>
Not more than three years before maturity	1-1/4%
More than three years but not more than six years before maturity	2-1/2%
More than six years but not more than eleven years before maturity	4-1/4%
More than eleven years but not more than thirteen years before maturity	6-1/2%
More than thirteen years before maturity	8%

SCHEDULE 4

Policies and Procedures for Sub-loans

1. Sub-loans to finance new investments not exceeding Rls. 3.2 million shall be made jointly with the *Bank Melli Iran* (BMI) under the following conditions:

- (i) BMI will participate 40%, and the Borrower 60%, in such sub-loans;
- (ii) BMI will be responsible for approving the creditworthiness of applicants for such sub-loans and servicing disbursements and collections; the Borrower shall be responsible for evaluating subproject development plans for technical feasibility and projected returns;
- (iii) Interest on such sub-loans shall be at the rate of 8% per annum;
- (iv) Security for such sub-loans will be the same kinds as those now required by the Borrower in its other lending operations; and
- (v) The loan value of mortgages of property can be up to 75% of market value.

2. All credits of the Borrower made from its own resources shall be made on the basis of project plans evaluated by the Borrower's staff as technically feasible and on projections that the return from the new investments to be financed would be satisfactory. All sub-loans of Rls. 20,000,000 or more shall require prior Bank approval. Supplementary or additional credits granted by the Borrower for the same project, regardless of the source of the new financing, if the resultant total of sub-loans and credits granted would be Rls. 20,000,000 or more, shall likewise require prior Bank approval.

3. Unless otherwise agreed with the Bank, sub-loans will bear the following rates of interest per annum:

- (i) Sub-loans to finance on-farm development other than those mentioned in Paragraph 1 above 8%
- (ii) Sub-loans to finance agribusiness and agroindustry development 9%

Such sub-loans shall also carry a 1% per annum commitment charge.

4. The repayment period of sub-loans, including necessary grace periods, will be in accordance with projections of the cash receipts and disbursements of the project being financed and, in addition, will take into account the beneficiary's repayment capacity.
5. The loan value of mortgages of real property shall not exceed 75% of the market value of such property.
6. Sub-loans shall be made under written agreements with sub-borrowers which shall include, without limitation, provisions for the following:
 - (i) The right of the Borrower to require the sub-borrower to carry out its investment plan, as approved by the Borrower, and to carry on its business, with due diligence and efficiency and in accordance with sound technical, agricultural, commercial, and financial practices and standards, and to maintain adequate records;
 - (ii) The right of the Borrower and of the Bank to inspect the premises, the improvement of which is financed by the sub-loan, the business of the sub-borrower, the operations thereof, and any relevant records and documents;
 - (iii) the right to obtain all such information as the Borrower or the Bank shall reasonably request relating to the foregoing and to the operations and financial condition of the sub-borrower;
 - (iv) the right to deny use of the proceeds of the sub-loan for goods produced in, or services supplied from, any country (other than Switzerland) which is not a member of the Bank;
 - (v) the right to require that the goods and services to be financed out of the proceeds of the Loan shall be purchased at reasonable prices, account being taken also of other relevant factors such as time of delivery and efficiency and reliability thereof, and availability of service and spare parts therefor; that civil works contracts estimated to cost the equivalent of \$300,000 or more and contracts for the purchase of machinery and equipment estimated to cost the equivalent of \$100,000 or more to be financed out of the proceeds of the Loan shall be procured

pursuant to international competitive procedures not inconsistent with those described in the publication of the Bank entitled "Guidelines for Procurement under World Bank Loans and IDA Credits" dated April 1972 as revised in October 1972; and that breeding dairy cattle to be so financed be imported only on the basis of at least three competitive quotations; and

- (vi) the right to suspend or terminate access by the sub-borrower to the use of such proceeds upon failure by him to perform his obligations and, in appropriate cases, to premature the sub-loan.