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CONFORMED

LOAN NUMBER 4783-IRN

Mazandaran Project Agreement

(Northern Cities Water Supply and Sanitation Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

MAZANDARAN WATER AND WASTEWATER COMPANY

- 2 -
Dated June 27, 2005



LOAN NUMBER 4783-IRN

PROJECT AGREEMENT

AGREEMENT dated June 27, 2005, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and MAZANDARAN WATER AND WASTEWATER COMPANY (the Mazandaran Water Company).

WHEREAS (A) by the Loan Agreement of even date herewith between Islamic Republic of Iran (the Borrower) and the Bank, the Bank has agreed to make a loan to the Borrower in the amount of two hundred twenty four million United States Dollars (US\$224,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Mazandaran Water Company agrees to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and the Mazandaran Water Company, part of the proceeds of the loan provided for under the Loan Agreement will be made available, as a loan, to the Mazandaran Water Company on the terms and conditions set forth in the Subsidiary Loan Agreement (the Mazandaran Subsidiary Loan Agreement); and

WHEREAS the Mazandaran Water Company, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth, and the following additional term has the following meaning: "Mazandaran Project Account" means the account referred to in Section 4.03 (a) of this Agreement.

ARTICLE II

Execution of the Project

Section 2.01. (a) The Mazandaran Water Company declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Project activities in Parts F, G, H, I and J of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, social and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Mazandaran Water Company shall otherwise agree, the Mazandaran Water Company shall carry out its Project activities in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and services required for Parts F, G, H, I, and J of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement, as these provisions may be further elaborated in the Procurement Plan.

(b) The Mazandaran Water Company shall update the Procurement Plan in accordance with guidelines acceptable to the Bank and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 2.03. (a) The Mazandaran Water Company shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Mazandaran Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Mazandaran Water Company shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and the Mazandaran Water Company, a plan for the future undertaking of Project activities in Parts F, G, H, I and J of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with the Mazandaran Water Company on said plan.

Section 2.04. The Mazandaran Water Company shall duly perform all its obligations under the Mazandaran Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, the Mazandaran Water Company shall not take or concur in any action

which would have the effect of amending, abrogating, assigning or waiving the Mazandaran Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) The Mazandaran Water Company shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Project activities in Parts F, G, H, I, and J of the Project, the performance of Mazandaran Water Company under this Agreement and under the Mazandaran Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) The Mazandaran Water Company shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Project activities in Parts F, G, H, I, and J of the Project, the accomplishment of the purposes of Loan, or the performance by the Mazandaran Water Company of its obligations under this Agreement and under the Mazandaran Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of the Mazandaran Water Company

Section 3.01. The Mazandaran Water Company shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering, environmental and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. The Mazandaran Water Company shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, environmental and public utility practices.

Section 3.03. The Mazandaran Water Company shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Mazandaran Water Company shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Project activities in Parts F, G, H, I, and J of the Project.

(b) The Mazandaran Water Company shall:

- (i) have the financial statements referred to in paragraph (a) of this Section as well as its own financial statements (balance sheets, statements of income and expenses and related statements), for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

Section 4.02. (a) The Mazandaran Water Company shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for Project activities in Parts F, G, H, I, and J of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in the implementation of Project activities in Parts F, G, H, I, and J of the Project, both cumulatively and for the period covered by said report, and explains variances between the actual and planned implementation; and
- (iii) sets forth the status of procurement under Project activities in Parts F, G, H, I and J of the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Bank not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first

expenditure under Project activities in Parts F, G, H, I, and J of the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Bank not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. (a) The Mazandaran Water Company shall, not later than the Effective Date until completion of the Project, open, and thereafter maintain in Rial a Project account, in the name of the Mazandaran Water Company. The Mazandaran Project Account shall be used exclusively by the Mazandaran Water Company to meet the expenditures of the Project not financed from proceeds of the Loan.

(b) The Mazandaran Water Company shall, not later than the Effective Date pay into the Mazandaran Project Account an initial deposit equivalent to US\$1,000,000 representing the first six (6) months of the Mazandaran Water Company's contribution to the costs of the Project; and thereafter deposit into the Mazandaran Project Account, not later than March 21 of each calendar year until completion of the Project, the amount of the Mazandaran Water Company's annual contribution to the said costs for such calendar year, as determined by agreement between the Mazandaran Water Company and the Bank.

(c) The Mazandaran Water Company shall ensure that all amounts deposited into the Mazandaran Project Account, in accordance with the provisions of this Section, shall be used exclusively to finance the Mazandaran Water Company's counterpart contribution to expenditures of the Project not otherwise financed out of the proceeds of the Loan.

Section 4.04. (a) Except as the Bank shall otherwise agree, the Mazandaran Water Company shall maintain, for each of its fiscal years after its fiscal year ending on March 21, 2006, a ratio of total operating expenses, excluding depreciation and financial charges, to total operating revenues, acceptable to the Bank, so as to enable the Mazandaran Water Company to achieve, by June 30, 2010, a ratio of total operating expenses, excluding depreciation and financial charges, to total operating revenues not higher than 0.75.

(b) Before March 21 in each of its fiscal years, the Mazandaran Water Company shall, on the basis of forecasts prepared by Mazandaran Water Company and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) above in respect of such year and the next following fiscal year, and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Mazandaran Water Company would not meet the requirements set forth in paragraph (a) above for the Mazandaran Water Company's fiscal years covered by such review, the Mazandaran Water Company shall

promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

- (d) For the purposes of this Section:
 - (i) The term “total operating expenses” means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, of the average current gross value of the Mazandaran Water Company's fixed assets in operation, or other basis acceptable to the Bank, but excluding financial charges.
 - (ii) The term “total operating revenues” means revenues from all sources related to operations.
 - (iii) The average current gross value of the Mazandaran Water Company's fixed assets in operation shall be calculated as one half of the sum of the gross value of the Mazandaran Water Company's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

Section 4.05. The Mazandaran Water Company shall: (a) reduce its accounts receivable for water and wastewater sales so that, commencing on June 30, 2010, such accounts receivable shall not exceed the sum of the amounts billed by the Mazandaran Water Company during the four (4) months immediately preceding the date on which such calculation is made; and (b) reduce the level of its unaccounted-for water so that, commencing on June 30, 2010, such level shall not exceed 27% of the water supplied by the Mazandaran Water Company.

ARTICLE V

Effective Date; Termination;

Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of the Mazandaran Water Company thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify the Mazandaran Water Company thereof.

Section 5.03. All these provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD 6391 Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-

For the Mazandaran Water and Wastewater Company:

Sari Khazar Bolvar
Post Code 48168-19318
Mazandaran
Islamic Republic of Iran

Facsimile:

0151-324 6473

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the Mazandaran Water Company, or by the Mazandaran Water Company on behalf of the Borrower under the Loan Agreement, may be taken or executed by its Managing Director or such other person or persons as the Managing Director shall designate in writing, and the Managing Director shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Christiaan J. Poortman

Regional Vice President
Middle East and North Africa

MAZANDARAN WATER AND WASTEWATER COMPANY

By: /s/ Masoud Mozayani

Authorized Representative

SCHEDULE 1

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), the provisions of the MOU, and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), the provisions of the MOU, and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding in accordance with the following provisions:

- (a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost US\$250,000 equivalent or more each.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost US\$5,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraphs 2.7 and 2.8 of the Guidelines.

(c) Prequalification

Bidders for work contracts estimated to cost the equivalent of US\$10,000,000 or more shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

B. Other Procurement Procedures

1. National Competitive Bidding. Works estimated to cost less than US\$5,000,000 equivalent per contract, up to an aggregate amount not to exceed US\$75,000,000 equivalent, and goods estimated to cost less than US\$250,000 per contract, up to an aggregate amount not to exceed US\$1,000,000 equivalent, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

- (i) the format of the bidding documents shall be consistent with the Bank's standard bidding documents;
- (ii) tenders shall be advertised in national and provincial newspapers of wide circulation with a bid submission deadline of thirty (30) days from advertisement;
- (iii) qualification criteria shall be stated in the bidding documents;
- (iv) government-owned enterprises shall be subject to the same bid and performance security requirements as other bidders and shall not be eligible to bid for contracts unless they: (a) are legally and financially autonomous; (b) operate under the provisions of the Borrower's commercial code; and (c) are not selected by the supervising or reporting ministry or governmental agency;
- (v) bidding will be open to qualified bidders who are registered in the MPO qualification system and who satisfy the qualification criteria indicated in the bidding documents;
- (vi) foreign bidders shall not be precluded from bidding;

- (vii) all bids shall be submitted in sealed envelopes and shall be accepted whether mailed or hand-carried;
- (viii) all bids shall be opened at the same time in public;
- (ix) the time for the bid openings shall be the same as for the deadline for receipt of bids or promptly thereafter;
- (x) prospective bidders may submit one bid in two (2) envelopes provided said envelopes shall be opened at the same time;
- (xi) all bids shall be evaluated on the basis of price and other criteria disclosed in the bid documents, and no provision for preferential treatment for national companies shall apply;
- (xii) contracts shall be awarded to the lowest evaluated responsive bidder;
- (xiii) bids shall be solicited and contracts shall be awarded on the basis of unit prices proposed by the bidders and not on offering discounts (or increases) on unit rates that are published or stated in the bidding documents;
- (xiv) no bidder shall be requested or permitted to modify his, her or its bid after the bid's closing date shall have elapsed;
- (xv) price negotiations with the lowest evaluated responsive bidder shall be prohibited; and
- (xvi) before rejecting all bids and soliciting new bids, the Bank's prior concurrence shall be obtained.

2. Shopping. Goods estimated to cost less than US\$50,000 equivalent per contract, up to an aggregate amount not to exceed US\$500,000 equivalent, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Works of an emergency nature, and goods of a proprietary nature costing US\$1,000,000 or less in the aggregate, which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of that procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of

Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than US\$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines, estimated to cost less than US\$200,000 equivalent per contract, may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than US\$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in exceptional circumstances that meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, and if justified in the context of the overall interests of the Mazandaran Water Company and the Project, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank:

- (i) each contract for works estimated to cost the equivalent of US\$5,000,000 or more;
- (ii) each contract for goods estimated to cost the equivalent of US\$250,000 or more;
- (iii) the first two contracts for works to be procured under National Competitive Bidding procedures;

- (iv) the first contract for goods to be procured under National Competitive Bidding procedures;
- (v) the first contract for goods to be procured under Shopping procedures;
- (vi) all direct award contracts;
- (vii) the first two contracts for consulting firms awarded under each type of selection method;
- (viii) any contract for goods, works, and consulting services awarded before the effectiveness of the Loan and to be paid from proceeds of the Loan;
- (ix) each contract for a consulting firm estimated to cost the equivalent of US\$100,000 or more;
- (x) each contract for consultancy services to an individual consultant estimated to cost the equivalent of US\$50,000 or more; and
- (xi) any single-source contract.

All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 2

Implementation Program

A. Project Coordination and Implementation

1. (a) The Mazandaran Water Company shall: (i) maintain the Environmental Management Plan, the Land Acquisition Plan, the Procurement Plan, and the Resettlement Policy Framework in a form and substance satisfactory to the Bank; and (ii) implement the Environmental Monitoring Plan, the Procurement Plan, the Land Acquisition Plan, and the Resettlement Policy Framework in accordance with the objectives, policies, procedures, time schedules and other provisions set forth therein.

(b) The Mazandaran Water Company shall refrain from taking any action which shall prevent or interfere with the implementation of the Environmental Management Plan, the Land Acquisition Plan, the Procurement Plan, and the Resettlement Policy Framework.

B. Reports and Mid-term Report

1. The Mazandaran Water Company shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators satisfactory to the Bank, the carrying out of Project activities in Parts F, G, H, I, and J of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Borrower for review and submission to the Bank: (i) commencing March 21, 2006, quarterly reports on the progress achieved in the carrying out of projects activities in Parts F, G, H, I, and J of the Project, including reports on the implementation of the Environmental Management Plan; and (ii) not later than December 31, 2007, a report, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Project

activities in Parts F, G, H, I, and J of the Project, including the implementation of the Environmental Management Plan, during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Project activities in Parts F, G, H, I, and J of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by March 31, 2008, or such later date as the Bank shall request, the report referred to in subparagraph (b) (ii) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

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