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**LOAN NUMBER 4688-IRN**

# **Loan Agreement**

**(Environmental Management Support Project)**

**between**

**ISLAMIC REPUBLIC OF IRAN**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated May 13, 2003**

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**LOAN NUMBER 4688-IRN**

## **LOAN AGREEMENT**

AGREEMENT, dated May 13, 2003, between the ISLAMIC REPUBLIC OF IRAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, the parties hereto hereby agree as follows:

### **ARTICLE I**

#### **General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Central Bank of Iran" and the acronym "CBI" mean the Borrower's central bank or any successor thereto;

(b) "Department of Environment" and the acronym "DOE" mean the Borrower's agency in charge of environmental management at the national level, established pursuant to the Cabinet Ruling dated March 2, 1972, as the same may be amended from time to time, and any successor thereto;

(c) “Financial Monitoring Report” and “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement;

(d) “Fiscal Year” and “FY” mean the Borrower’s fiscal year, commencing March 21 and ending March 20; and Fiscal Years and FYs mean more than one Fiscal Year;

(e) “Institute of Applied Environmental Science and Research” and “IAESR” mean the Borrower’s institute established by Decree No. 22-5444 dated February 18, 2001, as the same may be amended from time to time, and any successor thereto;

(f) “Non-Governmental Organization” and the acronym “NGO” mean a non-governmental organization established in the Borrower’s territory under the laws of the Islamic Republic of Iran;

(g) “National Expert Committee” and the acronym “NEC” mean the committee established on December 1, 2002 by DOE, and thereafter maintained pursuant to the provisions of paragraph 1 (a) of Schedule 5 to this Agreement;

(h) “Project Coordination Team” and “PCT” mean the Project coordination team to be maintained pursuant to the provisions of paragraph 1 (d) of Schedule 5 to this Agreement;

(i) “Project Implementation Plan” and “PIP” mean the Borrower’s plan, to be adopted pursuant to the provisions of paragraph 3 of Schedule 5 to this Agreement; as such manual may be amended from time to time with the prior agreement of the Bank;

(j) “Policy Planning Unit” and “PPU” mean the unit established by DOE on January 5, 2003 and thereafter maintained pursuant to the provisions of paragraph 1 (c) of Schedule 5 to this Agreement;

(k) “Project Province” means the provinces of Tehran, Markazi, Isfahan, Khorasan and Khuzestan in the territories of which part of the activities of the Project will be implemented, and “Project Province” means any one of such Project Provinces;

(l) “Province” means a territorial and administrative unit of the Borrower established, organized and managed pursuant to the Borrower’s laws related to the organization of the territory of the Islamic Republic of Iran, as the

same may be amended from time to time; and Provinces means more than one Province;

(m) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(n) “Steering Committee” and “SC” mean the steering committee established on December 1, 2002 by DOE and thereafter maintained within each of the Project Provinces pursuant to the provisions of paragraph 1 (b) of Schedule 5 to this Agreement; and “SCs” means more than one Steering Committee;

## **ARTICLE II**

### **The Loan**

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to twenty million United States Dollars (US\$20,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2008, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On, or promptly after the effective date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourth of one percent ( $\frac{3}{4}$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay Commission on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Commission Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) “Commission Period” means the initial period from and including the date of this Agreement to, but excluding, the first Commission Payment Date occurring thereafter, and after the initial period, each period from and including a Commission Payment Date to, but excluding the next following Commission Payment Date.
- (ii) “Commission Payment Date” means any date specified in Section 2.07 of this Agreement.
- (iii) “LIBOR Base Rate” means, for each Commission Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Commission Period (or, in the case of the initial Commission Period, for value the Commission Payment Date occurring on or next preceding the first day of such Commission Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each Commission Period: (A) three-fourth of one percent ( $\frac{3}{4}$  of 1%); (B) minus (or plus) the weighted average margin, for such Commission Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each commission Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the commission rates referred to in this Section, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the commission rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the commission rates applicable to the Loan upon not less than six (6) months notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Commission and other charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.08. 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. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through DOE with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural and engineering practices, and social and environmental standards and shall provide, 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 Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement and with the Project Implementation Plan.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) 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 Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

### **ARTICLE IV**

#### **Financial Covenants**

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.





(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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 (4) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Financial Monitoring Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one (1) year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Financial Monitoring Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 6 (a) of Schedule 5 to this Agreement, the Borrower 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 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 Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under 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 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 the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Termination**

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VI**

### **Representative of the Borrower; Addresses**

Section 6.01. The Minister of Economic Affairs and Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.



Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Economic Affairs and Finance  
Tehran  
Islamic Republic of Iran

Telephone	Facsimile
98 21 390 10 33	98 21 391 16 55

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 Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Tehran, Islamic Republic of Iran, as of the day and year first above written.

ISLAMIC REPUBLIC OF IRAN

/s/ Tahmaseb Mazaheri Khorazani

By

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

/s/ Mr. Jean-Louis Sarbib

By

Regional Vice President  
Middle East and North Africa

## 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 the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in U.S. Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	560,000	85%
(2) Goods  of expenditures	9,770,000	100% of foreign expenditures, 100% local  (ex-factory cost); and 85 % of local expenditures for other items procured locally
(3) Consultants' services, training and workshops 97%	6,550,000	88% for local firms and individuals and  for foreign firms and individuals
(4) Incremental operating costs	1,240,000	95% of expenditures incurred until March 21, 2006, 75% until March 21, 2007 and 50% thereafter
(5) Front-end Fee	200,000	Amount due under Section 2.04 of this Agreement
(6) Unallocated	1,680,000	

<b>TOTAL</b>	<u>20,000,000</u>
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2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower for goods or services supplied from the territory of the Borrower; and

(c) the term “Incremental operating costs” means reasonable expenditures incurred by DOE in respect of expenditures made under Part A.2 and A.3 of the Project for operation and maintenance of the air and water monitoring stations, including filters and other consumables, and under Part D of the Project on account of communications, transportation, consumables, and operating costs of equipment and vehicles, but excluding staff salaries, which expenditures would not have been incurred absent the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for: (i) works under contracts estimated to cost less than US\$100,000; (ii) goods under contracts costing less than US\$100,000 equivalent each; (iii) contracts for the employment of consulting firms valued at less than US \$100,000 equivalent each; (iv) contracts for the employment of individuals valued at less than US\$50,000 equivalent each; (v) incremental operating costs; and (vi) training and workshops; all under such terms and conditions as the Bank shall specify by notice to the Borrower.



## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to assist the Borrower to implement the first phase of a long-term program to improve its environmental management capacity and more specifically to enhance the capacity of DOE to monitor air and water quality.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objective:

#### **Part A:           Strengthening Institutional Capacity to Monitor Air and Water Quality**

1.       Provision of goods, consultants' services and training to strengthen the legal and institutional framework for environmental management and protection and natural resource conservation including: (i) mainstreaming environmental policies and programs, (ii) improving the legal and regulatory framework governing air and water quality management, (iii) enhancing the environmental impact assessment system at the national and provincial levels, and (iv) establishing an environmental information management system at DOE at the central level, and at least two DOE's provincial offices.

2.       Carrying out through the execution of works and the provision of goods including ambient air monitoring and meteorological stations, training and consultants' services, a program to monitor air quality in the cities of Tehran, Isfahan, Mashhad and Arak.

3.       Carrying out through the execution of works and the provision of goods, training and consultants' services a program to monitor water quality in a pilot area along the Karoon River and carrying out of a training program for DOE staff in the provincial office of Khuzestan to operate and maintain the equipments of the control stations.

#### **Part B:           Building Partnership through Pilot Environmental Projects**

Provision of training and advisory services to municipalities, private sector, NGOs, universities and line ministries as the case may be to carry out partnership sub-projects to protect and enhance the quality of the environment.

Part C:            Training and Public Awareness Programs

1.        Strengthening environmental training programs in air and water quality through the provision of consultants' services, partnership with academic institutions, goods and construction of facilities for the IAESR.

2.        Enhancing the capacity of DOE to carry out environmental awareness activities, including public awareness campaigns on air and water quality, through the provision of consultants' services and goods, including printing and disseminating environmental books, production, and broadcasting of environmental programs through radio and television networks.

Part D:            Project Management and Coordination

Provision of consultants' services, training and goods to PCT and provision of training to DOE staff in the provinces of Tehran, Isfahan, Khorasan and Markazi, to strengthen their respective technical and management capabilities mainly in the areas of monitoring and evaluation of Project activities.

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The Project is expected to be completed by June 30, 2008.

**SCHEDULE 3**

**Amortization Schedule**

<u>Payment Date</u>	<u>Payment of Principal Expressed in U.S. Dollars</u>
July 15, 2008	835,000
January 15, 2009	835,000
July 15, 2009	835,000
January 15, 2010	835,000
July 15, 2010	835,000
January 15, 2011	835,000
July 15, 2011	835,000
January 15, 2012	835,000
July 15, 2012	835,000
January 15, 2013	835,000
July 15, 2013	835,000
January 15, 2014	835,000
July 15, 2014	835,000
January 15, 2015	835,000
July 15, 2015	835,000
January 15, 2016	835,000
July 15, 2016	835,000
January 15, 2017	835,000
July 15, 2017	835,000
January 15, 2018	835,000
July 15, 2018	835,000
January 15, 2019	835,000
July 15, 2019	835,000
January 15, 2020	795,000
<b>TOTAL</b>	20,000,000

## **SCHEDULE 4**

### **Procurement**

#### Section I. Procurement of Goods and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines), and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, works and goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(b) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost US\$100,000 equivalent or more each.

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

(a) Contracts for the procurement of goods and publications and books in Farsi, estimated to cost more than US\$100,000 and less than US \$300,000 equivalent per contract, up to an aggregate amount not to exceed US\$1,000,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) contracts referred to in paragraph 1 (a) of this Part and to be procured under the National Competitive Bidding procedure shall comply with the following:

- (i) Any prospective bidder from a country eligible under the Guidelines who propose to provide goods produced in or services supplied from any such country shall be eligible to bid for such contracts.
- (ii) The Borrower shall use standard bidding documents acceptable to the Bank.
- (iii) Tenders will be advertised with no less than thirty days for bid preparation.
- (iv) Government owned enterprises shall be eligible provided they are legally and financially autonomous, operate under commercial law, and are not selected or hired by the supervising or reporting authority, and will be subject to the same bid and performance security requirements as other bidders.
- (v) Bidders will be allowed to deliver their bid by hand or by mail.
- (vi) Bids shall be opened in public. The time for the bid opening shall be the same as for the deadline for receipt of bids or promptly thereafter.
- (vii) Prospective bidders shall be allowed to submit two envelopes provided the two envelopes are opened at the same time.
- (viii) Bids shall be evaluated based on price and on other criteria disclosed in the bid documents and quantified in monetary terms, and no provision for preferential treatment for national companies shall be applied.
- (ix) The contract shall be awarded to the bidder having submitted the lowest evaluated responsive bid, and no negotiation shall take place.

## 2. National and International Shopping

Goods estimated to cost less than US\$100,000 equivalent per contract, up to an aggregate amount not to exceed US\$200,000, may be procured under contracts awarded on the basis of national/international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than US\$150,000 equivalent per contract, up to an aggregate amount not to exceed US\$700,000 may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. Direct Contracting

Goods under Part A (2) and (3) of the Project which are of a proprietary nature: (a) may be purchased from the original supplier to be compatible with existing equipment, or (b) may be purchased from a particular supplier as a condition of a performance guarantee, and which cost less than US\$10,000 per contract, up to an aggregate amount not to exceed US\$100,000 per year, may, with the prior agreement of the Bank, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) the procedure set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply:

- (i) with respect to all contracts estimated to cost US\$100,000 or more procured under Part C.1 of this Section;
- (ii) with respect to the three first contracts for goods under Part C.2, and the three first contracts for works to be procured under Part C.3 of this Section the following procedure shall apply; and

- (iii) with respect to each contract for works, estimated to cost more than US\$100,000 procured under Part C.3 of this Section.

(b) With respect to each contract for goods procured under Part C.4 of this Section, the Borrower shall furnish the name of the supplier, the type and specifications and estimated cost of the goods and the justification for procuring such goods through direct contracting.

(c) Prior to the selection of any supplier/execution of any contract under Parts C.2 and C.3 of this Section, the Borrower shall provide to the Bank:

- (i) a report on the comparison and evaluation of quotations received and a copy of the specifications and the draft contract; and
- (ii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

### Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

### Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications:

Services to be provided by consulting firms under Parts C.2 and D of the Project that are estimated to cost less than US\$100,000 equivalent per contract, up to an aggregate not to exceed US\$400,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants for services and training under Part A.1, B, C.2 and D of the Project and costing less than US\$50,000 per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Guidelines.

3. Least-Cost Selection

Services for financial audit estimated to cost less than US\$100,000 may be procured in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Quality-based Selection

Services of individual consultants costing more than US\$50,000 per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

5. Single Source Selection

Services for short term technical assistance and very small assignments for the Project, costing less than US\$50,000 may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultants Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph.



2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of US\$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of US\$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 5**

### **Implementation Program**

1. The Borrower shall:

(a) maintain a National Expert Committee with mandate and membership satisfactory to the Bank to: (i) provide policy direction and overall management guidance in the implementation of the Project, and (ii) facilitate coordination among stakeholders involved in the implementation of the Project;

(b) maintain within each of the provinces of Khorasan, Tehran, Isfahan, Markazi and Khuzestan, a Steering Committee with mandate and membership satisfactory to the Bank to advise DOE and other institutions on the implementation of the Project at the provincial level of each Province;

(c) maintain the Policy Planning Unit within DOE to be responsible for studies to mainstream environmental management into policies and programs.

(d) maintain a Project Coordination Team headed by a Project Coordinator and staffed with staff in adequate number and with relevant qualification and experience satisfactory to the Bank, including a liaison officer, four (4) environmental specialists, a financial specialist, a procurement specialist and an administrative assistant.

2. The Borrower shall, not later than February 28, 2003 adopt a Project Implementation Plan, satisfactory to the Bank, which shall include, *inter alia*: (i) a description of the functions, responsibilities and composition of the NEC and PCT and each of the SCs and the modalities of their relationships; (ii) the criteria and process for the selection of joint-programs to be carried out under Part B.1 of the Project; (iii) the criteria and process for the selection of NGOs, municipalities, universities and line ministries where appropriate, to assist in the implementation of Part B of the Project; (iv) procurement rules and procedures; (v) financial management procedures including record keeping, monitoring, auditing and reporting; (vi) performance indicators for all Project components; and (vii) the procedures for the monitoring and reporting of Project activities.

3. The Borrower shall not amend, delete, suspend, or waive any part of the Project Implementation Plan unless it is agreed upon by the Borrower and the Bank.

4. The Borrower shall ensure that activities under Parts A.2, A.3 and B of the Project shall be reviewed by the competent SC at provincial level and/or NEC at national level as the case may be, and shall be approved only if: (a) in the event an environment compliance certificate is required under the laws or regulations of the Islamic Republic of

Iran, the proposal proponent has obtained such certificate from the Borrower's competent environmental authorities in respect of the implementation of such activities; and (b) such activities incorporate measures for the maintenance and periodic inspection of any works and physical structures to be built or rehabilitated in accordance with sound engineering practice satisfactory to the Bank to determine whether there are any deficiencies in the condition of the structures, or in the quality and adequacy of maintenance or the methods of operations thereof which may endanger their safety and reliability.

5. The Borrower shall cause DOE to:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis the carrying out of the Project and the achievement of the objectives thereof in accordance with performance indicators, satisfactory to the Bank, and as set forth in the Project Implementation Plan;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about November 30, 2005 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 the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by January 30, 2006, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, 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's views on the matter.

## **SCHEDULE 6**

### **Special Account**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to US\$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of US\$500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of US\$3,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the

basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

Seble Berhanu

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