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**LOAN NUMBER 4738-IRN**

## **Loan Agreement**

**(Ahwaz and Shiraz Water Supply and Sanitation Project)**

**between**

**ISLAMIC REPUBLIC OF IRAN**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated July 17, 2004**



**LOAN NUMBER 4738-IRN**

**LOAN AGREEMENT**

AGREEMENT, dated July 17, 2004 between ISLAMIC REPUBLIC OF IRAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) 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;

(B) Parts A.1, A.2, B.1, C.1 and D.2(a) of the Project will be carried out, with the Borrower's assistance, by the Ahwaz Water and Wastewater Company (the Ahwaz Water Company), a company established and operating under the laws of the Borrower; and Parts A.3, A.4, B.2, C.2 and D.2(b) of the Project will be carried out, with the Borrower's assistance, by the Shiraz Water and Wastewater Company (the Shiraz Water Company), a company established and operating under the laws of the Borrower;

(C) as part of its assistance to the Ahwaz Water Company and the Shiraz Water Company, the Borrower will make portions of the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to the Ahwaz Water Company and the Shiraz Water Company, as set forth in this Agreement; 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 and in the following agreements of even date herewith between the Bank and the Ahwaz Water Company (the Ahwaz Project Agreement) and between the Bank and the Shiraz Water Company (the Shiraz Project 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 following additional terms have the following meanings:

(a) "Ahwaz Project Agreement" means the agreement between the Bank and the Ahwaz Water Company of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Ahwaz Project Agreement;

(b) “Ahwaz Special Accounts” means the accounts referred to in Section 2.02 (b)(ii) of this Agreement;

(c) “Ahwaz Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and the Ahwaz Water Company pursuant to Section 3.03 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Ahwaz Subsidiary Loan Agreement;

(d) “Environmental Management Plan” means the Environmental Management Plan furnished to the Bank in April, 2004, setting forth, *inter alia*, the measures to be taken during the implementation and operation of the Project to offset or reduce adverse environmental impact, including water pollution, industrial pollution and wastewater effluents, to levels acceptable to the Bank, as the same may be amended from time to time by agreement between the Borrower and the Bank;

(e) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(f) “Land Acquisition Plan” means, collectively, the Abbreviated Land Acquisition and Compensation Plans for the cities of Ahwaz and Shiraz furnished to the Bank in December, 2003, describing the status and procedures of land acquisition under the Project;

(g) “MPO” means the Borrower’s Management and Planning Organization;

(h) “NWWEC” means the National Water and Wastewater Engineering Company, a company wholly-owned by the Borrower, established and operating under the Borrower’s laws;

(i) “NWWEC Project Account” means the account referred to in Section 3.06 of this Agreement;

(j) “NWWEC Special Account” means the account referred to in Section 2.02 (b) (i) of this Agreement;

(k) “Parts of the Project” means, with respect to the Ahwaz Water Company, Parts A.1, A.2, B.1, C.1 and D.2(a) of the Project, and, with respect to the Shiraz Water Company, Parts A.3, A.4, B.2, C.2 and D.2(b) of the Project;

(l) “Project Agreements” means, collectively, the Ahwaz Project Agreement and the Shiraz Project Agreement (as this term is hereinafter defined);

(m) “Resettlement Policy Framework” means the Resettlement Policy Framework furnished to the Bank in December 2003, which, *inter alia*, defines the principles, organizational arrangements and design criteria to be applied to any involuntary resettlement that may arise in the course of the implementation of the Project;

(n) “Rial” means the lawful currency of the Borrower;

(o) “Shiraz Project Agreement” means the agreement between the Bank and the Shiraz Water Company of even date herewith, as the same may be amended from

time to time and such term includes all schedules and agreements supplemental to the Shiraz Project Agreement;

(p) "Shiraz Special Accounts" means the accounts referred to in Section 2.02 (b)(iii) of this Agreement;

(q) "Shiraz Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and the Shiraz Water Company pursuant to Section 3.03 (b) of this Agreement, as the same may be amended from time to time and such term includes all schedules to the Shiraz Subsidiary Loan Agreement;

(r) "Special Accounts" means, collectively, the NWWEC Special Account, the Ahwaz Special Accounts and the Shiraz Special Accounts;

(s) "Subsidiary Loan Agreements" means, collectively, the Ahwaz Subsidiary Loan Agreement and the Shiraz Subsidiary Loan Agreement;

(t) "TSU" means either of the two (2) technical support units to be established, and thereafter maintained, pursuant to the provisions of Section 6.01 (c) of this Agreement; and

(u) "Water Companies" means, collectively, the Ahwaz Water Company and the Shiraz Water Company; each a "Water Company".

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to each of the Water Companies.

## **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 two hundred seventy nine million United States Dollars (US\$279,000,000).

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 five (5) separate special deposit accounts in a commercial bank, in the names of: (i) NWWEC (the NWWEC Special Account); (ii) the Ahwaz Water Company (the Ahwaz Special Accounts); and (iii) the Shiraz Water Company (the Shiraz Special Accounts), all on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each of the Special Accounts shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2009 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 front-end 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 such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $3/4$  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 ( $3/4$  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 of 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 2.06, 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 objectives of the Project, and, to this end, shall carry out Part D.1 of the Project through NWWEC with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part D.1 of the Project.

(b) Without any limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause each of the Water Companies to perform, in accordance with the provisions of its respective Project Agreement, all the respective obligations of the Water Company therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each of the Water Companies to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the consultants' services required for Part D.1 of 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. (a) The Borrower shall, out of the proceeds of the Loan, relend such amount, as may be allocated from time to time to Categories (1)(a), (2)(a), (3)(a), (4) (b) and (5) (a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement, to the Ahwaz Water Company under a subsidiary loan agreement to be entered into between the Borrower and the Ahwaz Water Company, under financial terms and conditions identical to those governing the Loan.

(b) The Borrower shall, out of the proceeds of the Loan, relend such amount, as may be allocated from time to time to Categories (2)(c), (3)(b), (4)(d) and (5)(b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement, to the Shiraz Water Company under a subsidiary loan agreement to be entered into between the Borrower and the Shiraz Water Company, under financial terms and conditions identical to those governing the Loan.

Section 3.04. (a) The Borrower shall make available, through budgetary transfers, to the Ahwaz Water Company: (i) such amounts out of the proceeds of the Loan as may be allocated from time to time to Categories (1) (b), (2)(b), and (4)(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and (ii) such amounts as may be needed to finance the Borrower's contribution to expenditures under Parts A.1, A.2, and B.1 of the Project.

(b) The Borrower shall make available through budgetary transfers, to the Shiraz Water Company: (i) such amounts out of the proceeds of the Loan as may be allocated from time to time to Categories (1) (c), (2)(d), and (4)(c) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and (ii) such amounts as may be needed to finance the Borrower's contribution to expenditures under Parts A.3, A.4, and B.2 of the Project.

Section 3.05. The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive either Subsidiary Loan Agreement or any provision thereof.

Section 3.06. (a) The Borrower shall, not later than the Effective Date until completion of the Project, cause NWWEC to open, and thereafter maintain in Rial a Project account, in the name of NWWEC. The NWWEC Project Account shall be used exclusively by NWWEC to meet the expenditures of Part D.1 of the Project not financed from proceeds of the Loan.

(b) The Borrower shall cause NWWEC, not later than the Effective Date, pay into the NWWEC Project Account an initial deposit equivalent to US\$100,000 representing the first six (6) months of the Borrower's contribution to the costs of Part D.1 of the Project, and shall thereafter deposit into the NWWEC Project Account, not later than March 21 of each calendar year until completion of the Project, the amount of the Borrower's annual contribution to the said costs for such calendar year, as determined by agreement between the Borrower and the Bank.

(c) The Borrower shall cause NWWEC to ensure that all amounts deposited into the NWWEC Project Account in accordance with the provisions of this Section shall be used exclusively to finance the Borrower's counterpart contribution to the expenditures under Part D.1 of the Project not otherwise financed out of the proceeds of the Loan.

Section 3.07. 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 continued achievement of the objectives of Part D.1 of the Project; and



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

Section 3.08. The Bank and the Borrower hereby agree that 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) shall be carried out by each of the Water Companies pursuant to Section 2.03 of the respective Project Agreement.

#### **ARTICLE IV**

##### **Financial Covenants**

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations, resources and expenditures related to Part D.1 of the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section (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 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.

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

- (i) retain, until at least one (1) year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and

- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) 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 Part D.1 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 Part D.1 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 Part D.1 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 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**

### **Remedies of the Bank**

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

- (a) either of the Water Companies shall have failed to perform any of its obligations under its respective Project Agreement;
- (b) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that either of the Water Companies will be able to perform its obligations under its respective Project Agreement; and
- (c) any law of the Borrower governing the establishment and operations of either Water Company shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Water Company in question to perform any of its obligations under its respective Project Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

## **ARTICLE VI**

### **Effective Date; Termination**

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Ahwaz Subsidiary Loan Agreement has been executed on behalf of the Borrower and the Ahwaz Water Company;

(b) the Shiraz Subsidiary Loan Agreement has been executed on behalf of the Borrower and the Shiraz Water Company;

(c) a technical support unit has been established within each of the Ahwaz Water Company and the Shiraz Water Company with competent staff in adequate numbers whose qualifications and experience are acceptable to the Bank; and

(d) NWWEC has employed a Project manager, an engineer, a procurement specialist, a financial specialist and an environmental specialist whose qualifications and experience are acceptable to the Bank.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that each of the Project Agreements has been duly authorized or ratified by the respective Water Company, and is legally binding upon said Water Company in accordance with its terms; and

(b) that each of the Subsidiary Loan Agreements has been duly authorized or ratified by the Borrower and the respective Water Company, and is legally binding upon the Borrower and said Water Company in accordance with its terms.

Section 6.03. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

**ARTICLE VII**

**Representative of the Borrower; Addresses**

Section 7.01. 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 7.02. 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  
Davar Avenue  
Tehran  
Islamic Republic of Iran

Facsimile:

98 21 39 01 033  
98 21 39 10 024

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

By /s/ Safdar Hosseini

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Christiaan Poortman

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 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 Dollars )</u>	<u>% of Expenditures to be Financed</u>
(1) Treatment works		100% of foreign expenditures and 50% of local expenditures
(a) under Part A.1 of of the Project	6,550,000	
(b) under Part B.1 of the Project	23,300,000	
(c) under Part B.2 of the Project	23,510,000	
(2) Civil works		100% of foreign expenditures and 80% of local expenditures
(a) under Part A.2 of the Project	22,830,000	
(b) under Part B.1 of the Project	50,250,000	
(c) under Parts A.3 and A.4 of the Project	17,700,000	
(d) under Part B.2 of of the Project	44,970,000	

Amount of the

<u>Category</u>	<u>Loan Allocated (Expressed in Dollars )</u>	<u>% of Expenditures to be Financed</u>
(3) Goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(a) under Parts A.1, A.2 and C.1 of the Project	980,000	
(b) under Parts A.3, A.4 and C.2 of the Project	980,000	
(4) Consultants' services and training		88% of local expenditures for firms and individuals domiciled within the Borrower's territory and 95% for foreign expenditures for services of other consultants
(a) under Parts A.1, A.2, B.1 and D.2 (a)(i) of the Project	7,600,000	
(b) under Part D.2 (a)(ii) of the Project	2,320,000	
(c) under Parts A.3, A.4, B.2 and D.2 (b)(i) of the Project	6,120,000	
(d) under Part D.2 (b)(ii) of the Project	1,620,000	

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars )</u>	<u>% of Expenditures to be Financed</u>
(e) under Part D.1 of the Project	2,760,000	
(5) Project Management Costs		90% until December 31, 2005, and 75% thereafter
(a) Ahwaz Water Company	1,660,000	
(b) Shiraz Water Company	1,660,000	
(6) Front-end fee	2,790,000	Amount due under Section 2.04 of this Agreement
(7) Unallocated	61,400,000	
	<u>279,000,000</u>	
<b>TOTAL</b>	<u>=====</u>	

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 or for goods or services supplied from the territory of the Borrower; and

(c) the term “Project Management Costs” means expenditures under the Project incurred by the Water Companies in relation to office support, office supplies and communications, but excluding salaries of officials of the Borrower.

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, except that withdrawals, in an aggregate amount not exceeding US\$10,000,000, may be made in respect of Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after March 1, 2004.



4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$500,000 equivalent per contract; (b) works costing less than \$5,000,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (e) training; and (f) Project Management Costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objectives of the Project are to assist the Borrower in: (a) improving the quality of life in the cities of Ahwaz and Shiraz, particularly in the cities' poor areas, by: (i) improving access to quality water; (ii) increasing coverage of sanitation services; (iii) improving the environmental, hygienic and health conditions; and (iv) promoting the reuse of treated effluents; (b) strengthening and developing the capacity of the Water Companies; (c) assisting the Water Companies in improving their efficiency, sustainability and financial autonomy; and (d) initiating sector reforms, particularly with respect to institutional arrangements, the regulatory framework, demand management and the preparation of a sanitation strategy.

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 objectives:

#### Part A: Rehabilitation, Improvement and Expansion of Water Systems and Facilities

1. Improving the quality of water in Ahwaz through the rehabilitation of an emergency water treatment plant, together with two other water treatment plants belonging to the Ahwaz Water Company, as well as the expansion of one of the latter plants.
2. Increasing the supply of water in Ahwaz through the rehabilitation and expansion of water networks, including transmission lines, as well as the construction of new reservoirs and new pumping stations.
3. Improving the quality of water in Shiraz through the drilling of seventeen (17) new water wells.
4. Increasing the supply of water in Shiraz through the rehabilitation and expansion of water networks, including transmission lines, as well as the construction of new reservoirs and new pumping stations.

#### Part B: Rehabilitation, Improvement and Expansion of Wastewater Systems and Facilities

1. The improvement of wastewater services in Ahwaz through: (a) the construction of the remaining segments of the eastern and western trunk mains; (b) the improvement of laterals and interceptors; (c) the construction of sixteen (16) pumping stations; (d) the installation of wastewater connections in about twenty three thousand (23,000) houses; (e) the rehabilitation of a wastewater treatment plant in the western part of Ahwaz; and (f) the construction of the first module of the wastewater treatment plant in the eastern part of Ahwaz.
2. The improvement of wastewater services in Shiraz through: (a) the construction of the remaining segments of the emergency zone's trunk main and the long-term zone's trunk main; (b) the construction of about seven hundred forty (740) kilometers of laterals and interceptors; (c) the installation of wastewater connections in about fifty thousand

(50,000) houses; (d) the rehabilitation of the outfall for the wastewater emergency and long-term treatment plants; and (e) the construction of the first and second modules of the long-term treatment plant.

Part C: Operation and Maintenance Equipment

1. The acquisition of operation and maintenance equipment, and consumer water meters, for the Ahwaz Water Company.
2. The acquisition of operation and maintenance equipment, and consumer water meters, for the Shiraz Water Company.

Part D: Institutional and Capacity Building

1. Support to NWWEC through the carrying out of studies and the provision of expert services and training required for strengthening the technical, institutional and financial capabilities of NWWEC.
2. (a) Strengthening the institutional capacity of the Ahwaz Water Company through: (i) the provision of equipment, expert services and training required for the establishment and operation of a TSU within the Ahwaz Water Company, and the carrying out of studies in the areas of engineering design and construction supervision; and (ii) the provision of technical advisory services and training for the design and implementation of the Environmental Management Plan.  
  
(b) Strengthening the institutional capacity of the Shiraz Water Company through: (i) the provision of equipment, expert services and training required for the establishment and operation of a TSU within the Shiraz Water Company, and the carrying out of studies in the areas of engineering design and construction supervision; and (ii) the provision of technical advisory services and training for the design and implementation of the Environmental Management Plan.

\* \* \*

The Project is expected to be completed by March 31, 2009.

**SCHEDULE 3**  
**Amortization Schedule**

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
On each January 15 and July 15	
beginning January 15, 2010	11,625,000
through July 15, 2021	11,625,000

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\* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

## **SCHEDULE 4**

### **Procurement under Part D.1 of the Project**

#### Section I. Employment of Consultants

##### Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and 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), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of this Section I.

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

1. 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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.
2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

##### Part C: Other Procedures for the Selection of Consultants

###### 1. Least-Cost Selection

Training services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded 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 \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

###### 3. Individual Consultants

Specialized advisory services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

###### 4. Single-Source Selection

In exceptional cases, and wherever justified in the context of the overall interests of the Borrower and the Project, single-source selection of consultants for services estimated to cost less than \$50,000 equivalent per contract may, with the Bank's prior

agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank.

2. Prior Review

With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; and (ii) each contract for the employment of individual consultants procured under Part C.3 or Part C.4 of this Schedule estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant 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 Consultant Guidelines shall apply.

## **SCHEDULE 5**

### **Implementation Program**

#### **A. Project Coordination and Implementation**

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

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

2. The Borrower shall take all necessary action to ensure the adequate provision by MPO and/or NWWEC of counterpart funds for Part D.1 of the Project not financed from the proceeds of the Loan.

3. The Borrower shall enter into arrangements with NWWEC, satisfactory to the Bank, whereby NWWEC shall assist the Water Companies in the carrying out of the procurement process, under their respective Parts of the Project, of all goods and works financed out of the proceeds of the Loan under international competitive bidding procedures.

#### **B. Reports and Mid-term Report**

1. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank: (i) commencing March 21, 2005, quarterly reports on the progress achieved in the carrying out of the Project; and (ii) not later than June 30, 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 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 September 30, 2007 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.

## **SCHEDULE 6**

### **Special Accounts**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1)(a), (1)(b), (1)(c), (2)(a), (2)(b), (2)(c), (2)(d), (3)(a), (3)(b), (4)(a), (4)(b), (4)(c), (4)(d), (4)(e), (5)(a) and (5)(b), 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 goods, works and services referred to in Section 2.02 (a) of this Agreement 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 in respect of: (i) the NWWEC Special Account, an amount equivalent to US\$500,000 to be withdrawn from the Loan Account and deposited into the NWWEC 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 an amount equivalent to US\$250,000 until the aggregate amount of withdrawals from the Loan Account of amounts allocated to Category (4)(e), plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to Category (4)(e), shall be equal to or exceed the equivalent of US\$1,500,000; (ii) the first Ahwaz Special Account, an amount equivalent to US\$2,000,000 to be withdrawn from the Loan Account and deposited into the first Ahwaz 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 an amount equivalent to US\$1,000,000 until the aggregate amount of withdrawals from the Loan Account of amounts allocated to Categories (1)(a), (2)(a), (3)(a), (4)(b) and (5)(a), plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to Categories (1)(a), (2)(a), (3)(a), (4)(b) and (5)(a), shall be equal to or exceed the equivalent of US\$7,000,000; (iii) the second Ahwaz Special Account, an amount equivalent to US\$4,000,000 to be withdrawn from the Loan Account and deposited into the second Ahwaz 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 an amount equivalent to US\$2,000,000 until the aggregate amount of withdrawals from the Loan Account of amounts allocated to Categories (1)(b), (2)(b), and (4)(a), plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to Categories (1)(b), (2)(b), and (4)(a), shall be equal to or exceed the equivalent of US\$15,000,000; (iv) the first Shiraz Special Account, an amount equivalent to US\$4,000,000 to be withdrawn from the Loan Account and deposited into the first Shiraz Special Account pursuant to paragraph 2 of this Schedule; provided, however, that, unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to US\$2,000,000 until the aggregate amount of withdrawals from the



Loan Account of amounts allocated to Categories (1)(c), (2)(d) and 4(c) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to Categories (1)(c), (2)(d) and (4)(c), shall be equal to or exceed the equivalent of US\$15,000,000; and (v) the second Shiraz Special Account, an amount equivalent to US\$2,000,000 to be withdrawn from the Loan Account and deposited into the second Shiraz Special Account pursuant to paragraph 2 of this Schedule; provided, however, that, unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to US\$1,000,000 until the aggregate amount of withdrawals from the Loan Account of amounts allocated to Categories (2)(c), (3)(b), (4)(d) and (5)(b), plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to Categories (2)(c), (3)(b), 4(d) and (5)(b), shall be equal to or exceed the equivalent of US\$7,000,000.

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

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

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

(b) For replenishment of the said Special Account, the Borrower shall furnish to the Bank requests for deposits into the said Special Account at such intervals as the Bank shall specify. 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 said 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 said Special Account for eligible expenditures. Each such deposit into the said Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the said Special Account's 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 respective 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 provision of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into any 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(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.