

**CONFORMED COPY**

---

---

**LOAN NUMBER 4738-IRN**

# **AHWAZ Project Agreement**

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

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**AHWAZ WATER AND WASTEWATER COMPANY**

**Dated July 17, 2004**

---

---

**LOAN NUMBER 4738-IRN**

**AHWAZ PROJECT AGREEMENT**

AGREEMENT dated July 17, 2004, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and AHWAZ WATER AND WASTEWATER COMPANY (the Ahwaz Water Company).

WHEREAS (A) by the Loan Agreement of even date herewith between Islamic Republic of Iran (the Borrower) and the Bank, the Bank has agreed to make a loan to the Borrower in the amount of two hundred seventy-nine million Dollars (US\$279,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Ahwaz Water Company agrees to undertake such obligations toward the Bank as are set forth in this Agreement;

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**Definitions**

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

## ARTICLE II

### Execution of the Project

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

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

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Ahwaz Water Company's Parts of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

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

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

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

Section 2.04. The Ahwaz Water Company shall duly perform all its obligations under the Ahwaz Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, the Ahwaz Water Company shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Ahwaz Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) The Ahwaz Water Company shall, at the request of the Bank, exchange views with the Bank with regard to the progress of its Parts of the Project, the performance of its obligations under this Agreement and under the Ahwaz Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

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

### **ARTICLE III**

#### **Management and Operations of the Ahwaz Water Company**

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

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

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

### **ARTICLE IV**

#### **Financial Covenants**

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

(b) The Ahwaz Water Company shall:

(i) have the financial statements referred to in paragraph (a) of this Section (balance sheets, statements of income and expenses and

related statements), as well as its own financial statements, for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

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

- (i) sets forth sources and uses of funds for its Parts 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 its Parts 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 its Parts of the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Bank not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under its Parts of the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Bank not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. (a) The Ahwaz Water Company shall, not later than the Effective Date until completion of the Project, open, and thereafter maintain, in Rial a Project account in the name of the Ahwaz Water Company. The Ahwaz Project Account shall be used exclusively by the Ahwaz Water Company to meet the expenditures of Parts A.1, A.2, B.1, C.1 and D.2(a) of the Project not financed from proceeds of the Loan.

(b) The Ahwaz Water Company shall, not later than the Effective Date, pay into the Ahwaz Project Account an initial deposit equivalent to \$500,000 representing the first six (6) months of the Ahwaz Water Company's contribution to the costs of Parts A.1, A.2, B.1, C.1 and D.2(a) of the Project; and thereafter deposit into the Ahwaz Project Account, not later than March 21 of the calendar year until completion of the Project, the amount of the Ahwaz Water Company's annual contribution to the said costs for such calendar year, as determined by agreement between the Ahwaz Water Company and the Bank.

(c) The Ahwaz Water Company shall ensure that all amounts deposited into the Ahwaz Project Account, in accordance with the provisions of this Section, shall be used exclusively to finance the Ahwaz Water Company's counterpart contribution to the expenditures of Parts A.1, A.2, B.1, C.1 and D.2(a) of the Project not otherwise financed out of the proceeds of the Loan.

Section 4.04. (a) Except as the Bank shall otherwise agree, the Ahwaz Water Company shall maintain, for each of its fiscal years after its fiscal year ending on March ,2005, a ratio of total operating expenses, excluding depreciation and financial charges, to total operating revenues, acceptable to the Bank, so as to enable the Ahwaz Water Company to achieve, by March 21, 2009, a ratio of total operating expenses, excluding depreciation and financial charges, to total operating revenues not higher than 0.75.

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

(c) If any such review shows that the Ahwaz Water Company would not meet the requirements set forth in paragraph (a) above for the Ahwaz Water Company's fiscal years covered by such review, the Ahwaz Water Company shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

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

Section 4.05. The Ahwaz Water Company shall: (a) reduce its accounts receivable for water and wastewater sales so that, commencing on March 21, 2009, such accounts receivable shall not exceed the sum of the amounts billed by the Ahwaz Water Company during the four (4) months immediately preceding the date on which such calculation is made; and (b) reduce the level of its unaccounted-for water so that, commencing on March 21, 2009, such level shall not exceed 27% of the water supplied by the Ahwaz Water Company.

## **ARTICLE V**

### **Effective Date; Termination; Cancellation and Suspension**

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

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

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

## ARTICLE VI

### Miscellaneous Provisions

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

For the Bank:

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

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

For the Ahwaz Water Company:

Post Code: 61335  
West 5<sup>th</sup> Avenue Kianpars  
Ahwaz, Islamic Republic of Iran

Facsimile:

0611-3336687

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



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

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Christiaan Poortman  
Authorized Representative

AHWAZ WATER AND WASTEWATER COMPANY

By /s/ Safdar Hosseini  
Authorized Representative

## **SCHEDULE 1**

### **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 this Section I.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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 and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each.

(b) Notification and Advertising

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

(c) Prequalification

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

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

Works estimated to cost less than \$5,000,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000,000 equivalent, and goods estimated to cost less than \$500,000 per contract, up to an aggregate amount not to exceed \$1,000,000

equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and with procedures acceptable to the Bank. Said procedures shall ensure, *inter alia*, that: (i) the format of the bidding documents shall be consistent with the Bank's standard bidding documents; (ii) tenders shall be advertised in local newspapers of wide circulation with a bid submission deadline of thirty (30) days from the date advertisement; (iii) government-owned enterprises shall be subject to the same bid and performance security requirements as other bidders and shall not be eligible to bid for contracts unless they: (a) are legally and financially autonomous; (b) operate under the provisions of the Borrower's commercial code; and (c) are not selected by the supervising or reporting ministry or governmental agency; (iv) all bids shall be submitted in sealed envelopes and shall be accepted whether mailed or hand-carried; (v) all bids shall be opened at the same time in public; (vi) all bids shall be opened on the day on which the deadline for bid submission falls, or very soon thereafter; (vii) prospective bidders may submit two (2) envelopes provided said envelopes shall be opened at the same time; (viii) all bids shall be evaluated on the basis of price and other criteria disclosed in the bid documents, and no provision for preferential treatment for national companies shall apply; (ix) contracts shall be awarded to the lowest evaluated responsive bidder; (x) no bidder shall be requested or permitted to modify his, her or its bid after the bid's closing date shall have elapsed; and (xi) price negotiations with the lowest evaluated responsive bidder shall be prohibited.

2. International or National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Works of an emergency nature, and goods of a proprietary nature costing \$1,000,000 or less in the aggregate, may, with the Bank's prior agreement, 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 procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to: (i) each contract for works estimated to cost the equivalent of \$5,000,000 or more; (ii) each contract for goods estimated to cost the equivalent of \$500,000 or more; (iii) the first two (2) contracts for works regardless of the value thereof; and (iv) the first contract for goods regardless of the value thereof.

(b) Without prejudice to the provisions of paragraph 2 (a) of this Part D, with respect to the first contract for goods procured in accordance with the procedures referred to in paragraph 2 of Part C above, and all contracts for goods and works procured in accordance with the procedures referred to in paragraph 3 of Part C above, the following procedures shall apply:

- (i) prior to the selection of any supplier, or execution of any contract, under shopping or direct contracting procedures, the Ahwaz Water Company shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping or direct contracting procedures, the Ahwaz Water Company shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) 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 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 Section II.

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 and supervision services under Parts A.1, A.2 and B.1 of the Project, 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 under Part D.2 (a) of the Project 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 Ahwaz Water Company 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 Section II 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 2

### Implementation Program

#### A. Project Coordination and Implementation

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

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

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

1. The Ahwaz Water Company shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to NWWEC for review and submission to the Bank: (i) commencing March 21, 2005, quarterly reports on the progress achieved in the carrying out of its Parts of the Project, including reports on the implementation of the Environmental Management Plan; 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 its Parts of the Project, including the implementation of the Environmental Management Plan, during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of its Parts 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.

Seble Berhanu

M:\legmn\IRAN\Ahwaz & Shiraz Water Supply & Sanitation\AHWAZ PA(Board).doc

May

21,

2004

11:19

AM