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**LOAN NUMBER 4783-IRN**

# **Loan Agreement**

**(Northern Cities Water Supply and Sanitation Project)**

**between**

**ISLAMIC REPUBLIC OF IRAN**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated June 27, 2005**



**LOAN NUMBER 4783-IRN**

**LOAN AGREEMENT**

AGREEMENT, dated June 27, 2005, between the 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, B, C, D, and E of the Project will be carried out, with the Borrower's assistance, by the Guilan Water and Wastewater Company (the Guilan Water Company), a company established and operating under the laws of the Borrower; and Parts F, G, H, I, and J of the Project will be carried out, with the Borrower's assistance, by the Mazandaran Water and Wastewater Company (the Mazandaran Water Company), a company established and operating under the laws of the Borrower;

(C) as part of its assistance to the Guilan Water Company and the Mazandaran 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 Guilan Water Company and the Mazandaran 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 agreement of even date herewith between the Bank and the Guilan Water Company (the Guilan Project Agreement) and between the Bank and the Mazandaran Water Company (the Mazandaran 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 May 1, 2004) (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) “Department of Environment” and the acronym “DOE” means the Borrower’s agency in charge of environmental management at the national level, established pursuant to a cabinet ruling dated March 2, 1972, as the same may be amended from time to time, and includes any successor to the DOE acceptable to the Bank;

(b) “Environmental Management Plan” means the Environmental Management Plan furnished to the Bank on March 11, 2005, 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;

(c) “Financial Monitoring Report” and “FMR” mean each report prepared in accordance with Sections 4.02 of the Project Agreements;

(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) “Guilan Project Agreement” means the agreement between the Bank and the Guilan 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 Guilan Project Agreement;

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

(g) “Guilan Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and the Guilan 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 Guilan Subsidiary Loan Agreement;

(h) “Land Acquisition Plan” means, collectively, the Abbreviated Land Acquisition and Compensation Plans for the cities of Rasht, Anzali, Sari and Babol furnished to the Bank on March 11, 2005, describing the status and procedures of land acquisition under the Project;

(i) “Mazandaran Project Agreement” means the agreement between the Bank and the Mazandaran 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 Mazandaran Project Agreement;

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

(k) “Mazandaran Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and the Mazandaran 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 Mazandaran Subsidiary Loan Agreement;

(l) “MOE” means the Borrower’s Ministry of Energy or any successor thereto;

(m) “MOU” means the Memorandum of Understanding on Procurement dated October 2, 2004, between the Borrower and the Bank;

(n) “MPO” means the Borrower’s Management and Planning Organization, or any successor thereto;

(o) “Procurement Plan” means the Borrower’s procurement plan, dated April 20, 2005, covering the initial eighteen (18) month period of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02(b) to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

(p) “Project Agreements” means, collectively, the Guilan Project Agreement and the Mazandaran Project Agreement (as this term is hereinafter defined);

(q) “Resettlement Policy Framework” means the Borrower’s resettlement policy framework dated March 11, 2005, for carrying out the Project and may be amended from time to time by agreement of the Borrower and the Bank, which sets out, inter-alia, the principles and objectives of the Resettlement Policy Framework, the institutional and implementation arrangements, the requirements for a resettlement action plan, including the eligibility criteria for assistance and rehabilitation entitlements, as well as the monitoring and reporting requirements to ensure compliance with the provisions of the Resettlement Policy Framework;

(r) “Rial” means the currency of the Borrower;

(s) “Special Accounts” means, collectively, the Guilan Special Accounts and the Mazandaran Special Accounts;

(t) “Subsidiary Loan Agreements” means, collectively, the Guilan Subsidiary Loan Agreement between the Borrower and the Guilan Water Company and the Mazandaran Subsidiary Loan Agreement between the Borrower and Mazandaran Water Company; and

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

## 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 twenty four million United States Dollars (US\$224,000,000).

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 US Dollars four separate special-deposit accounts in a commercial bank, in the names of: (i) the Guilan Water Company (two Special Accounts - the Guilan Special Accounts I and II); and, (ii) the Mazandaran Water Company (two Special Accounts - the Mazandaran Special Accounts I and II), all 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 Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2010, 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, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effectiveness 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-fourth 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 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 February 15 and August 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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause each of the Water Companies to perform, in accordance with the provisions of their respective Project Agreements, all the respective obligations of the Water Companies 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.

(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 cause the Water Companies to:

- (i) carry out their obligations in accordance with the provisions of this Agreement and the applicable Project Agreements; and
- (ii) implement the Project in accordance with the Environmental Management Plan; the Land Acquisition Plan; the Procurement Plan; and the Resettlement Policy Framework, and except as the Bank shall otherwise agree, the Borrower shall not amend or waive any provision thereof if, in the opinion of the Bank, such amendment or waiver may materially and adversely affect the implementation of the Project.

Section 3.02. (a) 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 1 to the Project Agreements, as such provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall, or shall cause the Water Companies to, update the Procurement Plan in accordance with the terms of reference acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. (a) The Borrower shall relend the proceeds of the Loan to the Guilan Water Company under a subsidiary loan agreement to be entered into between the

Borrower and the Guilan Water Company, under financial terms and conditions identical to those governing the Loan.

(b) The Borrower shall relend the proceeds of the Loan to the Mazandaran Water Company under a subsidiary loan agreement to be entered into between the Borrower and the Mazandaran Water Company, under financial terms and conditions identical to those governing the Loan.

Section 3.04. (a) Without limitation upon the provisions of Section 3.03(a) above, the Borrower shall make available, through the Borrower's contribution, to the Guilan Water Company: (i) the proceeds of the Loan; and (ii) such amounts as may be needed to finance the Borrower's contribution to expenditures under Parts B and D of the Project.

(b) Without limitation upon the provisions of Section 3.03(b) above, the Borrower shall make available through the Borrower's contribution, to the Mazandaran Water Company: (i) the proceeds of the Loan; and, (ii) such amounts as may be needed to finance the Borrower's contribution to expenditures under Parts F, H and I 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. 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 the Project; and,

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

Section 3.07. 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 ensure that the Water Companies 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 the Project.

- (b) The Borrower shall ensure that the Water Companies shall:
  - (i) have the respective financial statements referred to in paragraph (a) of this Section 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 respective 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, 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) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one 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;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in any audit that the Bank may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) The Borrower shall cause the Guilan Water Company to prepare and submit to the Bank a satisfactory and acceptable environmental impact assessment report regarding the proper collection treatment and disposal of sludge from the three wastewater treatment plants at Rasht, Anzali West and Anzali East, together with evidence, satisfactory to the Bank, of the financing of the facilities related to sludge collection, treatment and disposal.

(b) The Borrower shall ensure that the environmental impact assessment report and the evidence for financing the sludge facilities indicated in sub-section (a) above, is furnished to the Bank by no later than September 30, 2006.

## **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 Guilan Subsidiary Loan Agreement has been executed by the Borrower and the Guilan Water Company;

(b) the Mazandaran Subsidiary Loan Agreement has been executed by the Borrower and the Mazandaran Water Company; and

(c) a technical support unit has been established within each of the Guilan Water Company and the Mazandaran Water Company with competent staff in adequate numbers 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 or  
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 Washington, District of Columbia, United States of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF IRAN

By: /s/ Masoud Mozayani

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By: Christiaan J. Poortman

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 (US\$)</u>	<u>% of Expenditures to be Financed</u>
(1) Treatment Works		
(a) Guilan	3,380,000	80%
(b) Mazandaran	4,510,000	
(2) Civil Works		
(a) Guilan <i>Water</i>		
(i) Rasht Water	43,170,000	80%
(ii) Anzali Water	4,010,000	
(b) Guilan Wastewater		
(i) Rasht Wastewater	48,930,000	
(ii) Anzali Wastewater	25,060,000	
(c) Mazandaran Water		
(i) Sari Water	2,590,000	
(ii) Babol Water	3,445,000	
(d) Mazandaran Wastewater		
(i) Sari Wastewater	28,360,000	
(ii) Babol Wastewater	21,900,000	
(3) Goods and Equipment		100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 80% of local expenditures for items procured locally
(a) Guilan	1,380,000	
(b) Mazandaran	1,090,000	

	<u>Category</u>	<u>Amount of the Loan Allocated in (US\$)</u>	<u>% of Expenditures to be Financed</u>
(4)	Consultant's services and training		
	(a) Guilan Wastewater	7,805,000	88% of local expenditures and 95% of foreign expenditures
	(b) Guilan Water	2,035,000	
	(c) Mazandaran Wastewater	5,501,000	
	(d) Mazandaran Water	509,000	
(5)	Project Management Costs		
	(a) Guilan	1,920,000	90% of all expenditures up to December 31,2005 and 75% of all expenditures thereafter
	(b) Mazandaran	1,920,000	
(6)	Front End fee	1,120,000	Amount due under Section 2.04 of the Loan Agreement
(7)	Unallocated	15,365,000	
	TOTAL	<u>224,000,000</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 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 the equivalent of

US\$10,000,000 may be made in respect of the Project, on account of payments made for expenditures before that date but after March 1, 2005.

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 US\$250,000 equivalent per contract; (b) works costing less than US\$5,000,000 equivalent per contract; (c) for services of individual consultants costing less than US\$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than US\$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: (i) enhance the quality of life in the Borrower's four northern cities of Rasht, Anzali, Sari and Babol by: (a) improving the reliability of the water supply systems through rehabilitation and extension of the water supply networks; (b) improving the health and urban environmental conditions by providing wastewater collection services and treatment facilities; (c) contributing to the environmental protection of the natural resources of the provinces (especially the Anzali Lagoon, an internationally recognized wetland); and (ii) improve the operational efficiency and financial sustainability of the Water Companies.

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: Collection and Treatment of Wastewater in Rasht

1. Extending and improving Rasht's collection network through approximately 70,000 new house connections, the construction of approximately 560 km of laterals, interceptors, and trunk mains, and 16 pump and lift stations in addition to collection works.
2. Upgrading a wastewater treatment plant under construction with a biological nutrient-removal unit, and include other measures to reduce the risk of discharge of untreated sewage in the event of temporary plant failure.
3. Undertaking a study and an investment program for septage management (to address waste from households not connected to the waste-water network).

#### Part B: Improvement of the Water Supply System in Rasht

Improving service provision in Rasht through regulating the pressure and availability of water in the distribution network, as well as reduction in losses due to leakage through various measures, including rehabilitation and extension of primary and secondary distribution piping, additional ground storage, and rehabilitation of two existing elevated storage tanks and associate pump stations.

#### Part C: Collection and Treatment of the Wastewater in Anzali

1. Extending and improving Anzali's collection network through: (i) provision of approximately 27000 new house connections; (ii) construction of approximately 250 km of laterals, interceptors, and trunk mains; and (iii) additional pump and lift stations.

2. Improving Anzali's waste-water treatment plant by upgrading it with a biological nutrient-removal unit, and including measures to eliminate the risk of discharge of untreated sewage in the event of temporary plant failure.
3. Constructing the first module of the Ghazian waste-water treatment plant.
4. Carrying out an investment program and associated studies for management of septage from households that would have not been connected to the waste-water network in the first phase.

Part D: Improvement of the Water Supply System in Anzali

1. Rehabilitating and extending Anzali's water distribution network with approximately 155 km of primary and secondary distribution network.
2. Carrying out an investment program to improve operational efficiency and reduce unaccounted-for water (including instrumentation for automation, operation and maintenance equipment).

Part E: Support to the Guilan Water Company

Providing technical assistance to enable the Guilan Water Company to carry out its obligations under this Project.

Part F: Wastewater Collection and Treatment in Sari

Establishing a new waste-water collection and treatment system for Sari through: (i) the provision of approximately 16000 new house connections; (ii) the construction of approximately 240 km of laterals, interceptors, trunk mains and outfalls; (iii) 2 pump stations; and (iv) the construction of the first module of the Sari wastewater treatment plant approximately (23,200 m<sup>3</sup>/day).

Part G: Improvement of the Water Supply System in Sari

1. Extending and rehabilitating Sari's distribution network through: (i) replacement of approximately 50 km of existing pipe; (ii) extension of the network with approximately 65 km of pipe; and (iii) addition of approximately 85 km of lateral pipes, and approximately 5500 new water meters.
2. Undertaking an investment program and studies to improve operational efficiency and reduce unaccounted-for water (including operation and maintenance equipment).

Part H: Wastewater Collection and Treatment in Babol

1. Strengthening Babol's waste-water collection and treatment system through: (i) the provision of approximately 16300 new house connections; (ii) the construction of approximately 130 km of laterals, interceptors, and trunk mains; and (iii) 6 pump and lift stations.
  
2. Improving the wastewater treatment plant through the construction of an outfall main and facilities to store wastewater in case of emergencies.

Part I: Improvement of the Water Supply Network in Babol

1. Improving Babol's water supply network through: , (i) the construction of a approximately 20,000 m3 ground reservoir and pumping station; (ii) the replacement of approximately 40 km of existing pipe mains; (iii) extension of the network with an additional approximately 32 km of mains; and (iv) approximately 125 km of lateral pipes and approximately 4500 water meters.
  
2. Carrying out an investment program (and associated studies) to improve operational efficiency and reduce unaccounted-for water (including operation and maintenance equipment).

Part J: Support for the Mazandaran Water Company

Providing technical assistance to enable the Mazandaran Water Company to carry out its obligations under this Project.

\* \* \*

The Project is expected to be completed by June 30, 2010.

**SCHEDULE 3**

**Amortization Schedule**

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
February 15, 2011	9,335,000
August 15, 2011	9,335,000
February 15, 2012	9,335,000
August 15, 2012	9,335,000
February 15, 2013	9,335,000
August 15, 2013	9,335,000
February 15, 2014	9,335,000
August 15, 2014	9,335,000
February 15, 2015	9,335,000
August 15, 2015	9,335,000
February 15, 2016	9,335,000
August 15, 2016	9,335,000
February 15, 2017	9,335,000
August 15, 2017	9,335,000
February 15, 2018	9,335,000
August 15, 2018	9,335,000
February 15, 2019	9,335,000
August 15, 2019	9,335,000
February 15, 2020	9,335,000
August 15, 2020	9,335,000
February 15, 2021	9,335,000
August 15, 2021	9,335,000
February 15, 2022	9,335,000
August 15, 2022	9,295,000

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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**

### **Implementation Program**

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

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

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

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

1. The Borrower shall ensure that the Water Companies:

(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, 2006, quarterly reports on the progress achieved in the carrying out of the Project; and (ii) not later than December 31, 2007, a report, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of 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 March 31, 2008, or such later date as the Bank shall request, the report referred to in subparagraph (b)(ii) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

## **SCHEDULE 5**

### **Special Accounts**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories 1(a), 1(b), 2(a)(i), 2 (a)(ii), 2 (b)(i), 2(b)(ii), 2(c)(i), 2 (c)(ii), 2(d)(i), 2 (d)(ii), 3(a), 3(b), 4(a), 4(b), 4(c), 4(d), 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 Guilan Special Account I, an amount equivalent to US\$6,000,000 to be withdrawn from the Loan Account and deposited into the Guilan Special Account I 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 in respect of Categories 1(a), 2(b)(i), 2(b)(ii), 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 Categories 1(a), 2(b)(i), 2(b)(ii), and 4(a), shall be equal to or exceed the equivalent of US\$10,000,000; (ii) the Guilan Special Account II, an amount equivalent to US\$ 4,000,000 to be withdrawn from the Loan Account and deposited into the Guilan Special Account II 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 in respect of Categories 2(a)(i), 2(a)(ii), 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 Categories 2(a)(i), 2(a)(ii), 3(a), 4(b), and 5(a), shall be equal to or exceed the equivalent of US\$7,000,000; (iii) the Mazandaran Special Account I, an amount equivalent to US\$4,000,000 to be withdrawn from the Loan Account and deposited into the Mazandaran Special Account I 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 in respect of Categories 1(b), 2(d)(i), 2(d)(ii), 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 Categories 1(b), 2(d)(i), 2(d)(ii), and 4(c), shall be equal to or exceed the equivalent of US\$8,000,000; and (iv) the Mazandaran Special Account II, an amount equivalent to US\$1,000,000 to be withdrawn from the Loan Account and

deposited into the Mazandaran Special Account II 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\$300,000 until the aggregate amount of withdrawals from the Loan Account in respect of Categories 2(c)(i), 2(c)(ii), 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 Categories 2(c)(i), 2(c)(ii), 3(b), 4(d), and 5(b) shall be equal to or exceed the equivalent of US\$1,500,000.

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.