

CONFORMED COPY

LOAN NUMBER 4551-IRN

Loan Agreement

(Tehran Sewerage Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

THE TEHRAN SEWERAGE COMPANY (TSC)

Dated June 26, 2000

LOAN NUMBER 4551-IRN

LOAN AGREEMENT

AGREEMENT, dated June 26, 2000, between the TEHRAN SEWERAGE COMPANY (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Islamic Republic of Iran (the Guarantor) and 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) by an agreement of even date between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan) and to undertake such other obligations as set forth in the Guarantee 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;

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 December 2, 1997) with the modifications set forth below in Schedule (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 9, is modified to read:

"'Euro' and 'EUR' each means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union."

(b) A new paragraph (d) is added to Section 3.04 to read:

"If the Bank shall at any time receive less than the full amount then due and payable to it under the Loan Agreement, the Bank shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Loan Agreement as the Bank shall in its sole discretion determine."

(c) Section 11.01 is modified by replacing, in the second sentence, the word "radiogram" with the word "facsimile" and adding a new sentence at the end of the said Section to read:

"Deliveries made by facsimile transmission shall also be confirmed by mail."

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) "Action Plan" means the action plan referred to in Section 4.02 of this Agreement;

(b) "Chart of Accounts" means the list of account codes to be used for recording and classifying all transactions related to the activities of the Project;

(c) "DOE" means the Guarantor's Department of Environment of the Tehran Province or any successor thereto;

(d) "EA" means the Borrower's Environmental Assessment for the Project, including the EMP, as hereinafter defined;

(e) "Eligible Categories" means categories 1, 2 and 3 set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) "Eligible Expenditures" means the expenditures for works, goods and services referred to in Section 2.02 of this Agreement;

(g) "EMC" means the Borrower's Environmental Monitoring Committee, responsible for monitoring the implementation by the PMU of the mitigating actions provided for in the EMP;

(h) "EMP" means the Project Environmental Management Plan satisfactory to the Bank;

(i) "Fiscal Year" means the twelve (12) month period corresponding to any of the Borrower's fiscal years, which period starts on March 21 and ends on March 20 in each calendar year;

(j) "FMM" and "Financial Management Manual" mean the manual, acceptable to the Bank, setting forth guidelines and procedures for the financial management of the Project;

(k) "PMU" means the Project Management Unit;

(l) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(m) "Project Area" means the greater Tehran, as defined under ministerial

council approvals N. H119T/942 dated June 29, 1990.

(n) "Rial" means the lawful currency of the Borrower;

(o) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(p) "TSC" and "the Borrower" mean the Tehran Sewerage Company, a Joint Stock Company established on March 16, 1995 and registred with the Tehran Registry of Commerce under number 120196 and

(q) "TPWSC" means the Tehran Province Water and Sewerage Company, a Joint Stock Company established on April 13, 1992 and registred with the Tehran registry of commerce under number 89561.

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 one hundred and forty five million dollars (US\$145,000,000).

Section 2.02. 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 works, goods and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be June 30, 2006 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

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

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-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-fourths 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 2.06, the Bank determines that it is in the commission 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 June 15 and December 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 the Project with due diligence and efficiency and in conformity with appropriate engineering, sanitation, environmental and financing practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

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

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound Action Plan acceptable to the Bank for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than January 1, 2002, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

Section 4.03. (a) Except as the Bank shall otherwise agree, the Borrower shall take all measures to secure full recovery of its total operations and maintenance and debt service;

(b) before December 21 in each Fiscal Year, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such Fiscal Year and the next following Fiscal Year and shall furnish to the Bank a copy of such review upon its completion;

(c) if any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Fiscal Year covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, recommendation for adjustments of the structure or levels of its rates) in order to meet such requirements;

(d) for the purposes of this Section, the term "total operations and maintenance" means all expenses related to operations and maintenance, including administration, adequate maintenance and taxes and payments in lieu of taxes excluding provision of depreciation; and

(e) the term "debt service" means the aggregate amount of repayments (including sinking fund payments, if any) of, and commission and other charges on, debt.

Section 4.04. The Borrower shall: (a) not later than September 1, 2001, carry out a study of the structure and levels of its tariffs, and furnish to the Bank such study for review and comments; and (b) not later than September 1, 2002, introduce a new tariff structure reflecting the results thereof and Bank's recommendations.

Section 4.05. (a) Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not, until completion of the Project, incur any debt other than that to finance its obligations under this Project.

(b) For the purposes of this Section:

(i) The term "debt" means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

ARTICLE V

Effective Date; Termination

Section 5.01. 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, namely, that:

(a) the Borrower shall have established and staffed the PMU with a Project director, an engineering manager, a procurement manager and a financial and

administrative manager, all under contractual arrangements and terms of reference acceptable to the Bank;

(b) the Borrower shall have provided the Bank with a detailed procurement plan covering the first year of Project implementation;

(c) the Financial Management Manual including the Chart of Accounts and the procedures to enhance PMU's internal control capacity has been approved by the Bank; and

(d) an audit report on the financial statements of the Borrower covering the Borrower's Fiscal Year ending on March 31, 2000 has been received and approved by the Bank.

Section 5.02. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. Chairman and Managing Director of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Tehran Sewerage Company
NO.14 Andisheh Street,
Dr. Beleshti Avenue
Tehran Islamic Republic of Iran

Facsimile:

00-9821-8409194

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 the District of Columbia, United States of America, as of the day and year first above written.

TEHRAN SEWERAGE COMPANY

By /s/ Mohammad Khazae Torshizi

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Inder K. Sud

Acting Regional Vice President
Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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:

Category	Amount of the Loan Allocated (Expressed in Dollars Equivalent)	% of Expenditures to be Financed
(1) Works		
(i) treatment works	49,500,000	85%
(ii) other works	69,700,000	75%
(2) Goods	2,700,000	100% of foreign expenditures, 100% of local expenditures ex-factory cost); and 80% for items procured locally
(3) Consultants' services, including PMU contracted staff and training	8,200,000	100%
(4) Fee	1,450,000	Amount due under Section 2.04 of this Agreement
(5) Unallocated	13,450,000	
TOTAL	145,000,000	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor;

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor; provided, however, that if the currency of the Guarantor is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

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 for Eligible Expenditures in an aggregate amount not exceeding \$8,000,000 may be made on account of payments made for such expenditures before that

date but after July 1, 1999.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for (i) goods not exceeding US\$350,000; (ii) works not exceeding US\$500,000; and services under contracts costing less than US\$100,000 equivalent for firms; US\$50,000 equivalent for individual consultants each, under such terms and conditions as the Bank shall specify by notice to the Borrower; and (iii) PMU operational costs, including remuneration for contracted staff and training.

B. Special Account

1. The Borrower shall open and maintain in a special deposit account in a commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into said Special Account shall be made as follows:

(a) until the Bank shall have received (i) the first Project Management Report referred to in Section 4.02(b) of this Agreement and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02(b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) 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 (A) the records and accounts for the Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the

Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means an amount equivalent to \$10,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$3,500,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of \$35,000,000.

2. Withdrawals of the Special Account's Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the 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 Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the 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 Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Special Account's Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan 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 Special Account's Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are
Made On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Special Account's Eligible Categories.
2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$10,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is (i) to improve the environmental and public health conditions in greater Tehran through the provision of satisfactory waste water collection, treatment and disposal facilities and reduction of surface and ground water pollution; (ii) to provide treated waste water for irrigation; and (iii) to develop the Borrower into a fully autonomous entity to be operated on a commercial basis.

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: Interceptors and Laterals

Supply and installation of about 2390 Kms of pipes divided between about 116 Kms of interceptors and about 2274 Kms of laterals, in the Project Area, to be connected to the western and eastern trunk mains.

Part B: Trunk mains

1. Supply and installation of about 10 Kms of pipes for completion of the western trunk main.
2. Construction of the eastern trunk main as a tunnel of about 20 Kms of length, divided between the northern part of about 4 Km and the southern part of about 16 Km.

Part C: Waste water treatment works

Construction of wastewater treatment works, including supply and installation of mechanical and electrical equipment, for a capacity of 450,000 m³/day and for the provision of secondary treatment of adequate standard to enable the use of treated effluents, after dilution, for unrestricted irrigation and the use of treated sludge for soil conditioning in agriculture.

Part D: Operation and maintenance

Acquisition of operation and maintenance equipment, including water jets, closed circuit television, rods and pumps.

Part E: Institutional Strengthening and Technical assistance

1. Development of the PMU project management capacity through the appointment of staff on contract basis, the establishment and implementation of project management procedures and reporting systems, and the provision of equipment and vehicles.
2. Strengthening of the Borrower's capacity to move towards an autonomous entity to be operated on commercial basis through the introduction of appropriate working procedures and training and the provision of equipment.
3. Preparation of request for proposals for the wastewater treatment works, following a design-build-operate approach, evaluation of proposals and design and construction supervision.
4. Preparation and implementation of an environmental monitoring system including relevant organizational development.
5. Development of appropriate environmental guidelines and preparation and implementation of an environment management system, including reuse of treated waste water and sludge.
6. Updating of water and sewerage development programs and preparation of, inter alia, feasibility studies, engineering design, tender documents, economic, legal and financial studies for new water and wastewater projects in greater Tehran.
7. Engineering design for subsequent phase implementation possibly to include preparation for a Build, Operate, Transfer (BOT) contract for the wastewater treatment works.
8. Construction supervision for works to be executed under the Project.
9. Carrying out of a study on structure and levels of water tariffs, wastewater charges, connection rights and subscription rates.

* * *

The Project is expected to be completed by December 31, 2005.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
On each June 15 and December 15	
beginning December 15, 2005 through December 15, 2016	6,040,000
on June 15, 2017	6,080,000

* 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

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, 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) Prequalification

Bidders for goods and works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Dispute Review Board

Each contract for works estimated to cost \$50,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.42 of the Guidelines.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$350,000 equivalent per contract, up to an aggregate amount not to exceed \$1,300,000 equivalent, and works estimated to cost less than \$5,000,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

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

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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

With respect to each contract for works estimated to cost the equivalent of \$500,000 or more, each contract for goods estimated to cost the equivalent of \$350,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

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, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions 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 the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services under Parts E 1 and E 2 of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services under Parts E 1 and E 2 of the Project estimated to cost less than \$50,000 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

Services for short term technical assistance under Part E of the Project may, with the Bank's prior agreement, be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultants' Guidelines.

4. Single Source Selection

Services for short term technical assistance under Part E of the Project which are estimated to cost less than US\$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 Consultants' Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

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

3. Post Review

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

SCHEDULE 5

Implementation Program

1. Responsibility for the overall planning, coordination, monitoring, reporting and management of the Project shall be vested with the PMU. The Borrower shall maintain the PMU during Project implementation with terms of reference satisfactory to the Bank and shall provide it at all times with such staff, functions and authorities as to carry out the aforementioned responsibility.

2. The Borrower shall: (a) prepare and update on a regular basis, as agreed with the Bank and on the basis of the EA, an EMP acceptable to the Bank including (i) mitigation measures for potentially adverse environmental impacts, (ii) monitoring schemes to review the efficacy of the EMP in relation to mitigation measures, and (iii) institutional strengthening through the establishment at DOE of a unit to develop environmental guidelines, review and enforce environmental regulations and legislation; and (b) implement the EMP in a manner satisfactory to the Bank especially the establishment of standards for industrial effluent discharges to the sewerage network and maintenance of acceptable quality level for effluent and sludge, including that generated from the sewage treatment plant, and reused in agriculture.

3. The Borrower shall, starting three months after Project effectiveness and thereafter for every 3 month period, provide the Bank, for its review and approval, with progress reports, including environmental and performance monitoring indicators. Such reports shall be provided to the Bank no later than 30 days after the end of each such reporting period.

4. The Borrower will:

(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, on or about February 1, 2004, a report integrating (i) 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 (ii) a scheme regarding the protection against any potential foreign exchange risk; and

(c) review with the Bank, by July 1, 2004, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

