

CONFORMED COPY

LOAN NUMBER 4782-IRN

Loan Agreement

(Alborz Integrated Land and Water Management Project)

between

ISLAMIC REPUBLIC OF IRAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 27, 2005



LOAN NUMBER 4782-IRN

LOAN AGREEMENT

AGREEMENT, dated June 27, 2005, between ISLAMIC REPUBLIC OF IRAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) Parts B.1(a), C.1, C.3, C.4, D.2 and E.2 of the Project will be carried out, with the Borrower's assistance, by Mazandaran and Golestan Regional Water Company (MGRWC), a company established and operating under the laws of the Borrower;

(C) as part of its assistance to MGRWC, the Borrower will make portions of the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to MGRWC, 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 agreement of even date herewith between the Bank and MGRWC (the 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 following additional terms have the following meanings:

(a) "BWC" means the Basin Water Council to be established and operated in accordance with the laws of the Borrower and referred to in paragraph A.4 of Schedule 5 to this Agreement;

(b) “Basin Water Fund” means the fund to be operated and maintained under Parts C.2 and C.3 of the Project for the purpose of supporting community-driven activities to improve water and land resource management in accordance with the procedures set out in the Operations Manual (as hereinafter defined);

(c) “CLO” means the Central Liaison Office of MOJA (as hereinafter defined) referred to in paragraph A.3 of Schedule 5 to this Agreement;

(d) “Environmental and Social Management Plan” or “ESMP” means the Environmental and Social Management Plan furnished to the Bank on September 16, 2004, setting forth, inter alia, the measures to be taken during the implementation and operation of the Project to offset or reduce adverse environmental and social impacts to levels acceptable to the Bank, and which includes a pest management plan;

(e) “Extended Project Area” means the entire catchment area of the Babol, Talar and Siah rivers as described in the ESMP;

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

(g) “MFRWD” means the Mazandaran Forests, Rangeland and Watershed Department;

(h) “MDOE” means the Mazandaran Department of Environment;

(i) “MJAO” means Mazandaran Jihad and Agricultural Organization of MOJA (as hereinafter defined);

(j) “MJAO-PIU” means the Project Implementation Unit, established by the Borrower within MJAO, and referred to in paragraph 3, Part A of Schedule 5 to this Agreement;

(k) “MOJA” means the Borrower’s Ministry of Jihad and Agriculture or any successor thereto;

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

(m) “National Steering Committee” means the National Steering Committee established by the Borrower and referred to in paragraph A.1 of Schedule 5 to this Agreement;

(n) “Operations Manual” means the Operations Manual dated January 10, 2005, prepared by the Borrower, in consultation with MGRWC, and referred

to in Part B of Schedule 5 to this Agreement, to set out, inter alia, the policies, criteria and mechanisms, terms and conditions, institutional organization, implementation, terms of reference of consultants' services, and details about the activities to be carried out under the Project, including the operation of the Basin Water Council and the Basin Water Fund, as the same may be amended from time to time in agreement with the Bank, and such term includes any schedules to the Operations Manual;

(o) "Procurement Plan" means the Borrower's procurement plan, dated January 11, 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 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(p) "Project Agreement" means the agreement between the Bank and MGRWC 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 Project Agreement;

(q) "Project Area" means the area included in the catchment area of the Babol, Talar and Siah rivers as described in the ESMP;

(r) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to the letter agreement signed on behalf of the Bank on May 13, 2004 and on behalf of the Borrower on May 16, 2004;

(s) "Resettlement Plan for the Alborz Dam Reservoir" means the Borrower's Resettlement Plan for the Alborz Dam Reservoir, dated September 16, 2004, which sets out, inter alia, the principles and objectives of the plan, eligibility criteria for identification of persons affected by the dam construction and its reservoir, compensation, assistance and rehabilitation entitlements, including the monitoring and reporting arrangements to ensure compliance with the provisions of the plan, as the same may be amended from time to time by agreement between the Borrower and the Bank;

(t) "Resettlement Policy Framework for Downstream Irrigation and Drainage Area" means the Borrower's Resettlement Policy Framework dated September 16, 2004, which sets out, inter alia, the policies, procedures and processes that will be adopted by the Borrower for the compensation and resettlement of people whose land/properties are acquired for the execution of irrigation and drainage activities under the Project, including the monitoring and reporting arrangements to ensure compliance with the provisions of the framework, as the same may be amended from time to time by agreement between the Borrower and the Bank;

(u) "Resettlement Policy Framework for Upper Watershed Area" means the Borrower's Resettlement Policy Framework dated September 16, 2004, which sets out policies, procedures and processes that shall be adopted by the Borrower for the relocation of livestock and the resettlement of forest dwelling families in the upper

watershed areas of the Babol river, including the monitoring and reporting arrangements to ensure compliance with the provisions of the framework, as the same may be amended from time to time by agreement between the Borrower and the Bank;

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

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

(x) “Special Accounts” means collectively, Special Account A and Special Account B;

(y) “Subsidiary Grant Agreement” means the agreement to be entered into between the Borrower and MGRWC pursuant to Section 3.01(d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Grant Agreement; and

(z) “WUAs” or “Water Users Associations” means associations to be formed, registered and operated by farmers in accordance with the Borrower’s laws to carry out community-based water management activities.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to MGRWC.

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 twenty million United States Dollars (US\$120,000,000).

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 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.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars two separate special deposit accounts (Special Account A for Parts A, B.1(b), B.2 B.3, C.2, D.1 and E.1 of the Project and Special Account B for Parts B.1(a), C.1, C.3, C.4, D.2 and E.2 of the Project) in commercial banks on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be October 31, 2012, 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 Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

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

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

(b) For the purposes of this Section:

- (i) "Commission Period" means the initial period from and including the date of this Agreement to, but excluding, the first Commission Payment Date occurring thereafter, and after the initial period, each period from and including an 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 new 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 in arrears on January 15 and July 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project through MOJA with due diligence and efficiency and in conformity with appropriate administrative, environmental and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project.

(b) Without any limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause MGRWC to perform in accordance

with the provisions of the Project Agreement all the obligations of MGRWC 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 MGRWC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) 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 Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement, the ESMP, the Resettlement Plan for the Alborz Dam Reservoir, the Resettlement Policy Framework for Downstream Irrigation and Drainage Area, the Resettlement Policy Framework for Upper Watershed Area and the Operations Manual as relevant.

(d) The Borrower shall make the proceeds of the Loan allocated from time to time to Categories 1(b), 2(b), 3(b), 4(b), 5(b) and 6(b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement available to MGRWC under a Subsidiary Grant Agreement to be entered into between the Borrower and MGRWC, under terms and conditions which shall have been approved by the Bank.

(e) The Borrower shall exercise its rights under the Subsidiary Grant Agreement 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 the Subsidiary Grant Agreement or any provision thereof.

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 4 to this Agreement, as said provisions shall be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines 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. 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 3.04. 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) in respect of Parts B.1(a), C.1, C.3, C.4, D.2 and E.2 of the Project shall be carried out by MGRWC pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and 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 the operations, resources and expenditures related to Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project.

- (b) The Borrower shall:
- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
 - (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

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

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Part D of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation of Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project, as at the end of the period covered by said report.

(b) The first FMR 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 the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

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

(a) MGRWC shall have failed to perform any of its obligations under the 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 MGRWC will be able to perform its obligations under the Project Agreement.

(c) any law of the Borrower governing the establishment and operations of MGRWC shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of MGRWC to perform any of its obligations under the Project Agreement.

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

(a) The events 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.

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely that the Subsidiary Grant Agreement has been executed on behalf of the Borrower and MGRWC.

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 the Project Agreement has been duly authorized or ratified by MGRWC, and is legally binding upon MGRWC in accordance with its terms; and

(b) that the Subsidiary Grant Agreement has been duly authorized or ratified by the Borrower and MGRWC and is legally binding upon the Borrower and MGRWC in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Economic Affairs and Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Economic Affairs and Finance
Davar Avenue
Tehran
Islamic Republic of Iran

Facsimile:

98 21 39 01 033
98 21 39 10 024

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the 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 /s/ 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 (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Works		75%
(a) Under Parts A, B.1(b), B.2, B.3, C.2, and D.1 of the Project.	37,123,000	
(b) Under Parts B.1(a), C.1, C.3, C.4 and D.2 of the Project	45,374,000	
(2) Goods		100% of foreign expenditures, 100 % of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(a) Under Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project.	2,217,000	
(b) Under Parts B.1(a), C.1, C.3, C.4, D.2 and E.2 of the Project	2,150,000	

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(3) Consultants' Services		88% for local firms and individuals and 95% for foreign firms and individuals
(a) Under Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project	7,965,000	
(b) Under Parts B.1(a), C.1, C.3, C.4, D.2 and E.2 of the Project	6,743,000	
(4) Training, workshops and study tours		100%
(a) Under Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project	1,492,000	
(b) Under Parts B.1(a), C.1, C.3, C.4, D.2 and E.2 of the Project	994,000	
(5) Goods, Works and Services under Parts C.2 and C.3 of the Project (for Basin Water Fund)		100%
(a) Under Part C.2	2,200,000	
(b) Under Part C.3	800,000	

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(6) Incremental Operating Costs		85%
(a) Under Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project.	470,000	
(b) Under Parts B.1(a), C.1, C.3, C.4, D.2 and E.2 of the Project	380,000	
(7) Refunding of Project Preparation Advance	1,464,000	Amounts due pursuant to Section 2.02(c) of this Agreement
(8) Front-end fee	600,000	Amount due under Section 2.04 of this Agreement
(9) Unallocated	10,028,000	
TOTAL	<u>120,000,000</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 or for goods or services supplied from the territory of the Borrower;

(c) “incremental operating costs” means the incremental operating costs arising under the Project on account of office rental, maintenance and supplies, utility charges, translation costs, salaries and allowances of incremental staff, travel

expenditures and communications' expenses, and bank charges, but excluding salaries of officials of the Borrower's civil service.

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

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) works costing less than US\$2,000,000 equivalent per contract; (b) goods costing less than US\$350,000 equivalent per contract; (c) for services of individual consultants costing less than US\$70,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than US\$100,000 equivalent per contract; (e) training workshops and study tours; (f) for goods and services incurred under Parts C.2 and C.3 of the Project; and (g) incremental operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (a) sustainably increasing agricultural productivity through improved irrigation, drainage and participatory management; (b) reducing soil erosion and sediment yields into the Alborz Dam on the Babol river, through improved upper watershed management; and (c) protecting the water environment through improved water quality monitoring, reservoir operation and pest management in the Project Area.

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: Upper Watershed, Forestry and Rangeland Management

1. Preparation of an upper watershed master plan including carrying out of socio-economic studies, development of a forestry and rangeland management framework, carrying out of feasibility studies of engineering structures, provision of training and acquisition of equipment for the enhancement of natural resource management capacity of local communities and MFRWD staff.
2. Construction of erosion control structures and gabion check dams for the retention of sediment and reduction of the influx of silt into the Alborz Dam reservoir.
3. Enhancement of the management and conservation of forest and rangeland, through fertilization and seeding of degraded rangeland, introduction of a rotational grazing management system based on participatory planning processes, rehabilitation of degraded natural stands, replanting and protection of forest clearings and construction and maintenance of forest roads.

Part B: Irrigation and Drainage Management

1. Improving irrigation water use efficiency and productivity through:
 - (a) rehabilitation, improvement and construction of a diversion weir, main and secondary canals, and pumping stations for irrigation water lifts, acquisition of water monitoring equipment and carrying out of participatory monitoring and evaluation activities; and
 - (b) carrying out of on-farm development including surface and subsurface drainage, tertiary and quaternary canals and land leveling and the carrying out of demonstration schemes for on-farm water management.

2. Establishment and strengthening of participatory irrigation management through: (a) conducting detailed socio-institutional surveys and consultations for raising awareness on the merits of participatory irrigation management; (b) the creation of Water Users Associations for the operation and management of irrigation water canals; (c) the provision of technical advisory services, training and carrying out of study tours for the benefit of staff of MGRWC, MOJA, MJAO and WUAs; and (d) the construction of offices, acquisition of operation and maintenance equipment and provision of administrative support to WUAs.

3. Support for agricultural extension services through the construction and rehabilitation of additional offices, provision of operational facilities and equipment, carrying out of a program to test ways of developing women's extension units, provision of training to farmers on efficient water and pesticide use, and carrying out of joint extension and research programs.

Part C: Integrated Water Resources Management

1. Establishment of a Basin Water Council to coordinate the activities of executing agencies and stakeholders, including reviewing current and emerging issues of land and water resources management, proposing policies, strategies and action plans, monitoring the state of water and other natural resources, disseminating information to executing agencies and stakeholders and supporting community-driven pilot activities for land and water conservation.

2. Establishment and operation of a Basin Water Fund for the provision of support to community-driven pilot activities designed to improve upper watershed, forestry and rangeland management, and the enhancement of agricultural productivity and irrigation water use.

3. Provision of institutional support in designing community-driven pilot activities aimed at conserving the environment.

4. Development of an integrated water resource management support system including: (a) a comprehensive surface and ground water model to enable simulation of the water balance for the Extended Project Area; (b) an optimized reservoir operation system linked with a monitoring network for hydrological conditions and downstream water requirements; (c) a water knowledge database for the monitoring and management of water supply and demand; and (d) water right provisionary and volumetric water monitoring systems.

Part D: Environmental Management

1. Carrying out an environmental management program including the provision of technical advisory services and training, carrying out of specialized studies, acquisition of equipment, carrying out of monitoring and evaluation activities, conducting information

dissemination activities and raising awareness, and carrying out of mitigation works with a view to upgrading: (a) forestry monitoring and management; (b) water quality monitoring; (c) environmental screening of Basin Water Fund activities for upper watershed, forestry and rangeland management, and agricultural productivity and irrigation water use improvement; (d) integrated pest management; and (e) resettlement management and monitoring in the upper watershed area.

2. Carrying out an environmental management program including the provision of technical advisory services and training, carrying out of specialized studies, acquisition of equipment, carrying out of monitoring and evaluation activities, conducting information dissemination activities and raising awareness, and mitigation works with a view to upgrading: (a) water quality monitoring and improvement works in rivers and aquifers; (b) environmental screening of Basin Water Fund activities for environmental conservation; (c) water ecology monitoring and mitigation; (d) dam safety management; (e) resettlement management and monitoring in the Alborz dam reservoir area, and the downstream irrigation and drainage area; and (f) physical cultural property protection.

Part E: Project Implementation and Coordination Support

1. Acquisition of office equipment and supplies and provision of technical advisory services, training and study tours for the benefit of staff of MOJA, MJAO and other selected agencies of the Borrower, for the effective implementation of the Project.

2. Acquisition of office equipment and supplies and provision of technical advisory services, training and study tours for the benefit of staff of MGRWC for the effective implementation of the Project.

* * *

The Project is expected to be completed by April 30, 2012.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)</u>
On each July 15 and January 15	
July 15, 2010	5,000,000
January 15, 2011	5,000,000
July 15, 2011	5,000,000
January 15, 2012	5,000,000
July 15, 2012	5,000,000
January 15, 2013	5,000,000
July 15, 2013	5,000,000
January 15, 2014	5,000,000
July 15, 2014	5,000,000
January 15, 2015	5,000,000
July 15, 2015	5,000,000
January 15, 2016	5,000,000
July 15, 2016	5,000,000
January 15, 2017	5,000,000
July 15, 2017	5,000,000
January 15, 2018	5,000,000
July 15, 2018	5,000,000
January 15, 2019	5,000,000
July 15, 2019	5,000,000
January 15, 2020	5,000,000
July 15, 2020	5,000,000
January 15, 2021	5,000,000
July 15, 2021	5,000,000
January 15, 2022	5,000,000

SCHEDULE 4

Procurement Under Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), the provisions of the MOU, and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), the provisions of the MOU and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than US\$350,000 equivalent per contract and works estimated to cost less than US\$2,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and with additional procedures that are described in the MOU.

2. Shopping. Goods and works estimated to cost less than US\$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection (QCBS). Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of QCBS. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than US\$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality Based Selection (QBS). Services for assignments which the Bank agrees meet the requirements of paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of QBS in accordance with the provisions of paragraphs 3.2 and 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than US\$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

4. Single Source. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultants' Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultants Guidelines.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Implementation Program

A. Project Coordination and Implementation

1. The Borrower shall maintain a National Steering Committee comprising representatives of selected key ministries and agencies of the Borrower, to be responsible for providing policy guidance, monitoring progress in Project implementation and coordinating the work of all implementing agencies.

2. The Borrower shall maintain, within MOJA, a Central Liaison Office (CLO) comprising representatives of MGRWC and MOJA to serve as the secretariat for the National Steering Committee and to serve as the focal point for the Project. The CLO shall be responsible for, inter alia: (i) liaising with the Bank and all concerned ministries of the Borrower on matters related to the Project; (ii) receiving and reviewing draft annual work plans and budgets to determine consistency with Project targets and the implementation schedule before submitting them to the National Steering Committee; (iii) preparing consolidated annual work plans for submission to the Bank; (iv) coordinating and monitoring Project activities; (v) carrying out compliance review and supervision support for Parts B.1(a), C.1, C.3, C.4, D.2 and E.2 of the Project; (vi) preparing progress reports; (vii) preparing withdrawal applications and ensuring the adequate financial management of Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project; (viii) carrying out procurement under Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project; and (ix) coordinating training activities and studies under the Project.

3. The Borrower shall maintain a Project Implementation Unit (PIU) to assist MJAO in the carrying out of Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project. The MJAO-PIU shall be responsible for preparing draft annual work plans and progress reports to be submitted to CLO, and for the procurement, financial management and disbursement processes, within approved thresholds, for Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project.

4. The Borrower shall, not later than December 31, 2005, establish a Basin Water Council including an executive committee, and clear set of rules and mechanisms for stakeholders participation, decision-making, coordination, governance structure and a secretariat, under terms of reference acceptable to the Bank, to assist in the implementation of Part C of the Project.

5. The Borrower shall cause MOJA and MGRWC to coordinate their activities for B.1(a), B.1(b), B.2 and B.3 of the Project.

6. Prior to the construction and rehabilitation of each secondary, tertiary and quaternary canals under Part B of the Project, the Borrower shall cause a WUA to be established, with terms and conditions acceptable to the Bank.

7. Prior to commencing any civil work or other physical intervention, except for maintenance works in the upper watershed area, the Borrower shall cause MOJA to prepare an upper watershed master plan, in form and substance acceptable to the Bank.

B. Operations Manual

1. The Borrower shall: (i) maintain the Operations Manual in a form and substance satisfactory to the Bank; and (ii) cause MOJA and MGRWC to carry out the Project activities in accordance with the objectives, policies, procedures, time schedules and other provisions set forth in the Operations Manual.

C. ESMP, Resettlement Plan for the Alborz Dam Reservoir, Resettlement Policy Framework for Downstream Irrigation and Drainage Area and Resettlement Policy Framework for Upper Watershed Area

1. The Borrower shall: (a) maintain the ESMP, the Resettlement Plan for the Alborz Dam Reservoir, the Resettlement Policy Framework for Downstream Irrigation and Drainage Area and the Resettlement Policy Framework for Upper Watershed Area, in form and substance satisfactory to the Bank; (b) cause MOJA, MDOE and MGRWC to implement said Plans and Frameworks in accordance with the objectives, policies, procedures, time schedules and other provisions set forth therein; (c) cause MOJA and MGRWC to furnish to the Bank, semi-annual reports incorporating the results of the monitoring and evaluation activities together with any revisions required to meet the objectives, and thereafter, to introduce such revisions into the Plans and Frameworks as shall have been approved by the Bank; and (d) refrain from taking any action which shall prevent or interfere with the implementation of the said Plans and Frameworks.

2. As soon as the specific planning information becomes available, the Borrower shall furnish to the Bank, for approval, the resettlement plans for upper watershed area and downstream irrigation and drainage area, consistent with their Resettlement Policy Frameworks.

D. Progress Reports and Mid-term Reviews

1. The Borrower shall: (i) prepare and furnish to the Bank semi-annual progress reports, integrating the results of the implementation of the Project; (ii) review the reports jointly with the Bank; and (iii) thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusion and recommendations of the said reports and the Bank's views on the matter.

2. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators acceptable to the Bank,

the carrying out of Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 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 October 31, 2006, 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 Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 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 Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by November 30, 2006, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories 1(a), 2(a), 3(a), 4(a), 5(a) and 6(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project and Categories 1(b), 2(b), 3(b), 4(b), 5(b) and 6(b) set forth in said table in respect of Parts B.1(a), C.1, C.3, C.4, D.2 and E.2 of the Project;

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

(c) the term “Authorized Allocation” means the amount of US\$3,000,000 in respect of Special Account A and an amount equivalent to US\$4,000,000 in respect of Special Account B, to be withdrawn from the Loan Account and deposited into the Special Accounts pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of US\$1,000,000 in respect of Special Account A and an amount equivalent to US\$1,500,000 in respect of Special Account B, until: (i) in respect of the Special Account A the aggregate amount of withdrawals from the Loan Account allocated to Categories 1(a), 2(a), 3(a), 4(a), 5(a) and 6(a) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Parts A, B.1(b), B.2, B.3, C.2, D.1 and E.1 of the Project shall be equal to or exceed the equivalent of US\$10,000,000; and (ii) in respect of the Special Account B, the aggregate amount of withdrawals from the Loan Account allocated to Categories 1(b), 2(b), 3(b), 4(b), 5(b) and 6(b) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Parts B.1(a), C.1, C.3, C.4, D.2 and E.2 of the Project shall be equal to or exceed the equivalent of US\$12,000,000.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the 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 provisions 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 for the respective Special Account, 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.