

No. 11192

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**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**  
and  
**IRAN**

**Loan Agreement—*Tehran Power Distribution Project* (with annexed General Conditions Applicable to Loan and Guarantee Agreements and Project Agreement between the Bank and the Tehran Regional Electricity Company). Signed at Washington on 18 December 1970**

*Authentic text : English.*

*Registered by the International Bank for Reconstruction and Development on 29 June 1971.*

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**BANQUE INTERNATIONALE POUR  
LA RECONSTRUCTION ET LE DÉVELOPPEMENT**  
et  
**IRAN**

**Contrat d'emprunt — *Projet relatif à l'électrification de Téhéran* (avec, en annexe, les Conditions générales applicables aux contrats d'emprunt et de garantie et le Contrat relatif au Projet entre la Banque et la Compagnie d'électricité de la région de Téhéran). Signé à Washington le 18 décembre 1970**

*Texte authentique : anglais.*

*Enregistré par la Banque internationale pour la reconstruction et le développement le 29 juin 1971.*

## LOAN AGREEMENT<sup>1</sup>

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AGREEMENT, dated December 18, 1970 between IRAN (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS (A) The Project described in Schedule 3 to this Agreement will be carried out by the Tehran Regional Electricity Company with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Tehran Regional Electricity Company the proceeds of the Loan as hereinafter provided; and

(B) The Bank is willing to make a loan available upon the terms and conditions hereinafter set forth and in a project agreement of even date herewith<sup>2</sup> between the Bank and the Tehran Regional Electricity Company;

NOW THEREFORE the parties hereto hereby agree as follows :

### *Article I*

#### GENERAL CONDITIONS; DEFINITIONS

*Section 1.01.* The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 31, 1969,<sup>3</sup> with the same force and effect as it they were fully set forth herein, subject, however, to the deletion of Section 5.01 thereof (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank, as so modified, being hereinafter called the General Conditions).

*Section 1.02.* Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings :

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

(b) " Subsidiary Loan Agreement " means the agreement to be entered into between the Borrower and the Tehran Regional Electricity Company pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

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<sup>1</sup> Came into force on 7 June 1971, upon notification by the Bank to the Government of Iran.

<sup>2</sup> See p. 240 of this volume.

<sup>3</sup> *Ibid.*

(c) “ Plan Law ” means the Law dated the 27th of Esfand 1346 providing for the Fourth National Five Year Development Plan of the Borrower, together with any amendment or amendments thereof;

(d) “ Plan Organization ” means the Plan Organization the functions and responsibilities of which are defined in the Plan Law, or any other organization or organizations which may be charged hereafter by law with functions and responsibilities of similar scope and character, and shall include any successor or successors thereto;

(e) “ TREC ” means the Tehran Regional Electricity Company, a joint-stock company organized and operating in accordance with the Law dated the 25th of Azar 1343, as amended by the Law dated the 17th of Azar 1344, and with its Charter (*assasnameh*), enacted pursuant to the said Law as amended, and shall include any successor or successors thereto; and

f) “ TAVANIR ” means the Transmission and Generating Company of Iran, a joint-stock company organized and operating in accordance with the Law dated the 17th of Esfand 1347 and with its Charter (*assasnameh*), enacted pursuant to the said Law, and shall include any successor or successors thereto.

## Article II

### THE LOAN

*Section 2.01.* The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to sixty million dollars (\$60,000,000).

*Section 2.02.* The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule I to this Agreement, as such Schedule shall be amended from time to time, for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed under the Loan Agreement; provided, however, that, except as the Bank shall otherwise agree, no withdrawal shall be made on account of expenditures in the territories of any country which is not a member of the Bank (other than Switzerland) or for goods produced in, or services supplied from, such territories.

*Section 2.03.* The Closing Date shall be December 31, 1974 or such other date as shall be agreed between the Borrower and the Bank.

*Section 2.04.* The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ( $\frac{3}{4}$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

*Section 2.05.* The Borrower shall pay interest at the rate of seven and one-quarter per cent ( $7\frac{1}{4}\%$ ) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

*Section 2.06.* Interest and other charges shall be payable semi-annually on April 15 and October 15 in each year.

*Section 2.07.* The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

*Section 2.08.* If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VIII of the General Conditions.

*Section 2.09.* The Managing Director of the Plan Organization and such other person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 8.10 of the General Conditions.

### *Article III*

#### EXECUTION OF THE PROJECT

*Section 3.01. (a)* The Borrower shall cause TREC to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering and public utility practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

*(b)* The Borrower undertakes to relend the proceeds of the Loan to TREC under a Subsidiary Loan Agreement to be entered into between the Borrower and TREC, for a period of twenty years including four years of grace at an interest rate of seven and one-quarter per cent ( $7\frac{1}{4}\%$ ) per annum and under such other terms and conditions as shall be satisfactory to the Bank.

*(c)* The Borrower undertakes to exercise its rights under the Subsidiary Loan 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, nor amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

*(d)* The Borrower undertakes to ensure that TREC performs all of its obligations under the Project Agreement and the Subsidiary Loan Agreement and not to take or permit to be taken any action which might interfere with such performance.

*Section 3.02.* In order to assist TREC in carrying out the Project in all its phases, the Borrower shall cause TREC to employ qualified and experienced

consultants acceptable to the Borrower, the Bank and TREC upon terms and conditions satisfactory to the Bank.

*Section 3.03.* (a) Except as the Bank shall otherwise agree, the goods and services required for the Project and to be financed out of the proceeds of the Loan shall be procured pursuant to the provisions set forth or referred to in paragraph (a) of Section 2.04 of the Project Agreement.

(b) The Borrower shall cause TREC to insure, or to make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan against marine, transit and other hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by TREC to replace or repair such goods.

(c) Except as the Bank shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively for the Project.

*Section 3.04.* The Borrower shall maintain records adequate to record the progress of the Project (including the cost thereof) and to identify the goods and services financed out of the proceeds of the Loan, and to disclose the use thereof in the Project; enable the Bank's representatives to inspect the Project, the goods financed out of the proceeds of the Loan and any relevant records and documents; and furnish to the Bank all such information as the Bank shall reasonably request concerning the Project, the expenditure of the proceeds of the Loan and the goods and services financed out of such proceeds.

#### Article IV

##### OTHER COVENANTS

*Section 4.01.* (a) It is the mutual intention of the Borrower and the Bank that no other external debt shall enjoy any priority over the Loan or the Bonds by way of a lien on governmental assets.

(b) To that end the Borrower (i) represents that at the date of this Agreement no lien exists on any governmental assets as security for any external debt as otherwise disclosed in writing by the Borrower to the Bank, and (ii) undertakes that if any such lien shall be created, it will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds and in the creation of any such lien express provision will be made to that effect.

(c) The foregoing representation and undertaking shall not apply to : (i) any lien created on property, at the time of purchase thereof, solely as security

for payment of the purchase price of such property; and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

As used in this Section, the term “governmental assets” means assets of the Borrower or of any of its political subdivisions or of any agency of the Borrower or of any such political subdivision, including the Bank Markazi Iran or any institution performing the functions of a central bank for the Borrower.

*Section 4.02.* The Borrower undertakes to ensure that TREC takes out and maintains with responsible insurers, or makes other provision satisfactory to the Bank (such as self-insurance) for, insurance against such risks and in such amounts as shall be consistent with sound practice.

*Section 4.03 (a)* Except as the Borrower and the Bank shall otherwise agree, the Borrower undertakes to take such action as shall be necessary to ensure that, after March 21, 1973 TREC’s ratio of debt to equity does not exceed 55:45.

(b) For purposes of this Section the following terms shall have the following meanings :

- (i) “debt” means all debt, including debt assumed or guaranteed by TREC, except debt incurred in the ordinary course of business and maturing by its terms on demand or less than one year after the date on which it is originally incurred, and debt shall be deemed to be incurred on the date of execution and delivery of a loan contract or agreement providing for such debt or, in the case of a guarantee of debt, on the date of execution and delivery of the contract providing for such guarantee;
- (ii) “equity” means the book value of :
  - (A) TREC’s share capital;
  - (B) the Borrower’s capital contributions to TREC for its facilities and operations;
  - (C) TREC’s legal and other reserves and the cumulative earnings generated by and retained in TREC’s power operations; and
  - (D) amounts corresponding to appropriate revaluations, if any, of TREC’s facilities, calculated in accordance with methods acceptable to the Bank.

*Section 4.04.* The Borrower undertakes within two years from the Effective Date to :

- (a) implement, or cause to be implemented, a satisfactory accounting system for TAVANIR, and

- (b) set, in consultation with the Bank, on the basis of proper accounting records, and thereafter maintain, tariffs for the sale of electricity by TAVANIR to TREC and the Regional Electric Power Companies at a level sufficient to :
- (A) cover (i) all operating expenses of TAVANIR, including administration and overhead expenses, maintenance, depreciation and taxes, if any, and (ii) interest on, and to the extent it exceeds depreciation, amortization of, debt; and
  - (B) finance a reasonable portion of TAVANIR's capital expenditures.

*Section 4.05.* The Borrower undertakes that :

- (a) until revised tariffs for TAVANIR are implemented in accordance with the provisions of Section 4.04 of this Agreement, TERC's tariffs shall not be changed in such a way as to result in a reduction of its total gross revenues from the sale of electricity as compared to the total gross revenues provided by the tariffs in effect at the date of this Agreement; and
- (b) thereafter TREC's tariffs shall be adjusted, in consultation with the Bank, as necessary from time to time in order to maintain such tariffs at a level at least sufficient to :
- (A) cover (i) all operating expenses of TREC, including administration and overhead expenses, maintenance, depreciation and taxes, if any, and (ii) interest on, and to the extent it exceeds depreciation, amortization of, debt; and
  - (B) finance a reasonable portion of TREC's capital expenditures.

### *Article V*

#### CONSULTATION, INFORMATION AND INSPECTION

*Section 5.01.* The Borrower and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, the Borrower and the Bank shall from time to time, at the request of either party :

- (a) exchange views through their representatives with regard to the performance of their respective obligations under the Loan Agreement, the performance by TREC of its obligations under the Project Agreement, the administration, operations and financial condition of TREC and other matters relating to the purposes of the Loan; and
- (b) furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower, including its balance

of payments, and the external debt of the Borrower, of any of its political subdivisions and of any agency of the Borrower or of any such political subdivision.

*Section 5.02.* (a) The Borrower shall furnish or cause to be furnished to the Bank all such information as the Bank shall reasonably request concerning the operations and financial condition of TREC and TAVANIR.

(b) The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with the accomplishment of the purposes of the Loan, the maintenance of the service thereof, the performance by the Borrower of its other obligations under the Loan Agreement or the performance by TREC of its obligations under the Project Agreement and the Subsidiary Loan Agreement.

*Section 5.03.* The Borrower shall afford all reasonable opportunity for accredited representatives of the Bank to inspect all plants, sites, works, property and equipment of TREC and any relevant records or documents and to visit any part of the territories of the Borrower for purposes related to the Loan.

## Article VI

### TAXES AND RESTRICTIONS

*Section 6.01.* The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes imposed under the laws of the Borrower or laws in effect in its territories; provided, however, that the foregoing shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Borrower.

*Section 6.02.* The Loan Agreement, the Project Agreement and the Bonds shall be free from any taxes on or in connection with the execution, issue, delivery or registration thereof imposed under the laws of the Borrower or laws in effect in its territories and the Borrower shall pay all such taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries.

*Section 6.03.* The payment of the principal of, and interest and other charges on, the Loan and the Bonds shall be free from all restrictions, regulations, controls and moratoria of any nature imposed under the laws of the Borrower or laws in effect in its territories.



*Article VII*

## REMEDIES OF THE BANK

*Section 7.01.* If any event specified in Section 7.01 of the General Conditions or in Section 7.02 of this Agreement shall occur and shall continue for the period, if any, therein set forth, then, at any subsequent time during the continuance thereof, the Bank, at its option, may by notice to the Borrower declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately together with the interest and other charges thereon and upon any such declaration such principal, interest and charges shall become due and payable immediately, anything to the contrary in the Loan Agreement or in the Bonds notwithstanding.

*Section 7.02.* For the purposes of Section 7.01 of the General Conditions, the following additional events are specified :

- (a) a default shall have occurred in the performance of any covenant or agreement on the part of TREC under the Project Agreement and such default shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and TREC;
- (b) TREC shall have become unable to pay its debts as they mature or any action or proceeding shall have been taken by TREC or by others whereby any of the property of TREC shall or may be distributed among its creditors;
- (c) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of TREC or for the suspension of its operations, without the prior agreement of the Bank;
- (d) any material change in the structure, organization, powers or responsibilities of TREC shall have been made, so as to adversely affect TREC's ability to carry out the Project or the operations of TREC or TREC's ability to carry out its obligations under the Project Agreement or the Subsidiary Loan Agreement and such event shall continue for a period of thirty days after notice thereof shall have been given by the Bank to the Borrower and TREC; and
- (e) a default shall have occurred in the performance of any covenant or agreement on the part of the Borrower or TREC under the Subsidiary Loan Agreement and such default shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

*Section 7.03.* For the purposes of Section 6.02 of the General Conditions, the following additional event is specified :

An extraordinary situation shall have arisen which shall make it improbable that TREC will be able to perform its obligations under the Project Agreement.

*Article VIII*

## EFFECTIVE DATE; TERMINATION

*Section 8.01.* The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 11.01 (c) of the General Conditions :

- (a) the execution and delivery of the Project Agreement on behalf of TREC have been duly authorized or ratified by all necessary corporate and governmental action;
- (b) the execution and delivery of the Subsidiary Loan Agreement on behalf of the Borrower and TREC respectively have been duly authorized or ratified by all necessary corporate and governmental action;
- (c) TREC has certified in writing to the Bank that, as of a date to be agreed between the Bank and TREC (which shall be prior to the Effective Date), there has been no material adverse change in the financial position of TREC since the date of this Agreement; and
- (d) TREC has employed independent auditors required under Section 4.02 of the Project Agreement.

*Section 8.02.* The following are specified as additional matters, within the meaning of Section 11.02 (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, and executed and delivered on behalf of, TREC, and constitutes a valid and binding obligation of TREC in accordance with its terms;
- (b) that the Subsidiary Loan Agreement has been duly authorized or ratified by and executed and delivered on behalf of, the Borrower and TREC respectively, and constitutes a valid and binding obligation of the Borrower and TREC in accordance with its terms.

*Section 8.03.* The date March 18, 1971 is hereby specified for the purposes of Section 11.04 of the General Conditions.

*Article IX*

## REPRESENTATIVE OF THE BORROWER; ADDRESSES

*Section 9.01.* The Managing Director of the Plan Organization of the Borrower is designated as representative of the Borrower for the purposes of Section 10.03 of the General Conditions.

*Section 9.02.* The following addresses are specified for the purpose of Section 10.01 of the General Conditions :

For the Borrower :  
 Plan Organization  
 Tehran, Iran  
 Cable address :  
 Barnameh  
 Tehran

For the Bank :  
 International Bank of Reconstruction and Development  
 1818 H Street, N.W.  
 Washington, D.C. 20433  
 United States of America  
 Cable address :  
 Intbafrad  
 Washington, D.C.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names and to be delivered in the District of Columbia, United States of America, as of the day and year first above written.

Iran :

By JAHANGIR AMUZEGAR  
 Authorized Representative

International Bank for Reconstruction and Development :

By J. BURKE KNAPP  
 Vice President

### 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 and the allocation of amounts of the Loan to each category :

<i>Category</i>	<i>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</i>
I. 230 kV transmission system . . . . .	12,000,000
II. Primary distribution system (63 kV and 20 kV) . . . . .	20,000,000
III. Secondary distribution system (400 V) and ancillary equipment	21,000,000
IV. Engineering, consulting, training and other services . . . . .	4,000,000
V. Unallocated . . . . .	3,000,000
	TOTAL 60,000,000
	60,000,000

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

- (a) expenditures in currency of the Borrower, or for goods produced in, or services supplied from, the territories of the Borrower, except that in the event that a local supplier is awarded a contract in accordance with the provisions of Schedule 1 to the Project Agreement, withdrawals may be made in respect of expenditures in the currency of the Borrower representing the foreign exchange component of such contracts, provided that the Borrower shall have furnished to the Bank evidence satisfactory to the Bank establishing the proportion of the total expenditures which constitutes such foreign exchange component.
- (b) expenditures prior to the date of this Agreement; and
- (c) payments for taxes imposed under the laws of the Borrower or laws in effect in its territories on goods or services, or on the importation, manufacture, procurement or supply thereof.

3. Notwithstanding the allocation of an amount of the Loan set forth in the second column of the table in paragraph 1 above:

- (a) if the estimate of the expenditures under any Category shall decrease, the amount of the Loan then allocated to such Category and no longer required therefor will be reallocated by the Bank by increasing correspondingly the unallocated amount of the Loan;
- (b) if the estimate of the expenditures under any Category shall increase, a corresponding amount will be allocated by the Bank, at the request of the Borrower, to such Category from the unallocated amount of the Loan, subject, however, to the requirements for contingencies, as determined by the Bank, in respect of any other expenditures.

## SCHEDULE 2

### AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
April 15, 1975 . . . . .	1,025,000	April 15, 1983 . . . . .	1,810,000
October 15, 1975 . . . . .	1,060,000	October 15, 1983 . . . . .	1,875,000
April 15, 1976 . . . . .	1,100,000	April 15, 1984 . . . . .	1,945,000
October 15, 1976 . . . . .	1,140,000	October 15, 1984 . . . . .	2,015,000
April 15, 1977 . . . . .	1,180,000	April 15, 1985 . . . . .	2,085,000
October 15, 1977 . . . . .	1,225,000	October 15, 1985 . . . . .	2,160,000
April 15, 1978 . . . . .	1,265,000	April 15, 1986 . . . . .	2,240,000
October 15, 1978 . . . . .	1,315,000	October 15, 1986 . . . . .	2,320,000
April 15, 1979 . . . . .	1,360,000	April 15, 1987 . . . . .	2,405,000
October 15, 1979 . . . . .	1,410,000	October 15, 1987 . . . . .	2,495,000
April 15, 1980 . . . . .	1,460,000	April 15, 1988 . . . . .	2,585,000
October 15, 1980 . . . . .	1,515,000	October 15, 1988 . . . . .	2,675,000
April 15, 1981 . . . . .	1,570,000	April 15, 1989 . . . . .	2,775,000
October 15, 1981 . . . . .	1,625,000	October 15, 1989 . . . . .	2,875,000
April 15, 1982 . . . . .	1,685,000	April 15, 1990 . . . . .	2,980,000
October 15, 1982 . . . . .	1,745,000	October 15, 1990 . . . . .	3,080,000

\* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

## PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05 (b) of the General Conditions or on the redemption of any Bond prior to its maturity pursuant to Section 8.15 of the General Conditions :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity . . . . .	1½%
More than three years but not more than six years before maturity . . . . .	2%
More than six years but not more than eleven years before maturity . . . . .	3½%
More than eleven years but not more than sixteen years before maturity . . . . .	5½%
More than sixteen years but not more than eighteen years before maturity . . . . .	6½%
More than eighteen years before maturity . . . . .	7½%

## SCHEDULE 3

## DESCRIPTION OF THE PROJECT

The Project consists of the expansion and improvement of the distribution system in the city of Tehran, including :

- Part 1.* A 230 kV transmission system encircling the city;
- Part 2.* Expansion of the primary and secondary distribution systems; and
- Part 3.* Engineering, consulting, training and other services.

The Project is expected to be completed by December 31, 1973.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

GENERAL CONDITIONS, DATED 31 JANUARY 1969

GENERAL CONDITIONS APPLICABLE TO LOAN AND GUARANTEE AGREEMENTS

[*Not published herein. See United Nations, Treaty Series, vol. 691, p. 300.*]

## PROJECT AGREEMENT

AGREEMENT, dated December 18, 1970 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and TEHRAN REGIONAL ELECTRICITY COMPANY (hereinafter called TREC).

WHEREAS by a loan agreement of even date herewith<sup>1</sup> between Iran (hereinafter called the Borrower) and the Bank (hereinafter referred to as the Loan Agreement), the Bank has agreed to make available to the Borrower an amount in various cur-

<sup>1</sup> See p. 218 of this volume.

rencies equivalent to sixty million dollars (\$60,000,000), on the terms and conditions set forth in the Loan Agreement, but on conditions that TREC agree to undertake such obligations toward the Bank as hereinafter set forth; and

WHEREAS by a subsidiary loan agreement to be entered into between the Borrower and TREC, the proceeds of the loan provided for under the Loan Agreement will be made available to TREC on the terms and conditions therein set forth; and

WHEREAS TREC, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows :

### *Article I*

#### DEFINITIONS

*Section 1.01.* Wherever used in this Agreement, unless the context shall otherwise require, the several terms defined in the Loan Agreement and in the General Conditions<sup>1</sup> (as so defined) have the respective meanings therein set forth.

### *Article II*

#### EXECUTION OF THE PROJECT

*Section 2.01.* TREC shall carry out the Project described in Schedule 3 to the Loan Agreement with due diligence and efficiency and in conformity with sound administrative, financial, engineering and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the purpose.

*Section 2.02.* In carrying out the Project in all its phases, TREC shall employ qualified and experienced consultants acceptable to the Borrower and the Bank upon terms and conditions satisfactory to the Borrower and the Bank.

*Section 2.03.* (a) In carrying out Part 1 of the Project, TREC shall employ contractors mutually acceptable to the Bank and TREC and upon terms and conditions satisfactory to the Bank.

(b) TREC shall carry out Part 2 of the Project with its own staff and to the extent necessary TREC shall also employ competent and experienced contractors upon general terms and conditions of contract mutually satisfactory to the Bank and TREC.

*Section 2.04.* (a) Except as the Bank shall otherwise agree, (i) the goods and services (other than services of consultants) required for the Project and to be financed out of the proceeds of the Loan relent to TREC by the Borrower shall be procured on the basis of international competitive bidding in accordance with the *Guidelines for Procurement under World Bank Loans and IDA Credits*, published by the Bank in August 1969, and in accordance with such other procedures supplementary thereto as

<sup>1</sup> See p. 240 of this volume.

are set forth in Schedule I to this Agreement or as shall be agreed between the Bank and TREC, and (ii) contracts for the procurement of all goods and services to be financed out of such proceeds of the Loan shall (except as otherwise provided in such Schedule) be subject to the prior approval of the Bank.

(b) TREC undertakes to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan relented to it by the Borrower against marine, transit and other hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by TREC to replace or repair such goods.

(c) Except as the Bank may otherwise agree, TREC shall cause all goods and services financed out of the proceeds of the Loan relented to it by the Borrower to be used exclusively for the Project.

*Section 2.05.* (a) TREC shall furnish to the Bank, promptly upon their preparation, the plans, specifications and construction schedules for the Project, and any material modifications or amplifications thereof, in such detail as the Bank shall reasonably request.

(b) TREC : (i) shall maintain records adequate to record the progress of the Project (including the cost thereof) and to identify the goods and services financed out of the proceeds of the Loan relented to it by the Borrower, and to disclose the use thereof in the Project; (ii) shall enable the Bank's representatives to inspect the Project, the goods financed out of such proceeds and any relevant records and documents; and (iii) shall furnish to the Bank all such information as the Bank shall reasonably request concerning the Project, the expenditure of the proceeds of the Loan so relented to it and the goods and services financed out of such proceeds.

*Section 2.06.* TREC shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, TREC shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

### *Article III*

#### MANAGEMENT AND OPERATIONS OF TREC

*Section 3.01.* (a) Except as the Bank shall otherwise agree, TREC shall at all times take all steps necessary on its part to : acquire, maintain and renew all rights, powers and privileges which are necessary or useful in its operation.

(b) TREC shall at all times conduct its operations under competent and experienced management, in accordance with sound administrative, financial, engineering and public utility practices and with the assistance of adequate qualified and experienced staff.

(c) TREC shall at all times operate, maintain, renew and repair its power facilities, plant equipment and machinery in accordance with sound engineering and management practices.

(d) TREC shall take out and maintain with responsible insurers, or make other provisions satisfactory to the Bank (such as self-insurance) for, insurance against such risks and in such amounts as shall be consistent with sound public utility practices.

(e) Except in the normal course of business, TREC shall not, without the prior approval of the Bank, sell, transfer, distribute or otherwise dispose of any of its property or assets which shall be required for its efficient operation and the sale, transfer, distribution or disposal of which would adversely affect TREC's ability to carry out its obligations under this Agreement.

(f) TREC shall set up a training program satisfactory to the Bank in its scope and implementation.

#### *Article IV*

##### FINANCIAL COVENANTS

*Section 4.01.* TREC shall maintain records adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition.

*Section 4.02.* TREC shall : (i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year commencing with the fiscal year ending March 21, 1970 audited in accordance with sound auditing principles consistently applied, by independent auditors mutually acceptable to the Bank and TREC; (ii) furnish to the Bank, as soon as available, and for fiscal years commencing with the fiscal year ending March 21, 1971 not later than six months after the end of each such fiscal year, (A) certified copies of its financial statements for such year as so audited and (B) the 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 the accounts and financial statements of TREC and the audit thereof as the Bank shall from time to time reasonably request.

*Section 4.03.* TREC shall review with the Bank, within one year from the Effective Date, progress in the measures taken to improve TREC's accounts and accounting procedures and shall take such additional measures as shall be deemed necessary by the Bank and TREC.

*Section 4.04.* Except as the Bank shall otherwise agree, TREC shall not create or permit to be created any mortgage, pledge, charge or other lien on any of its property or assets; provided, however, that the foregoing provisions of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property, and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.



*Section 4.05.* TREC shall take all such steps as shall be required on its part to ensure that its tariffs conform to the provisions of Section 4.05 of the Loan Agreement.

#### *Article V*

##### CONSULTATION, INFORMATION AND INSPECTION

*Section 5.01.* The Bank and TREC shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, the Bank and TREC shall from time to time, at the request of either party, exchange views through their representatives with regard to the performance of their respective obligations under this Agreement, the administration, operations and financial condition of TREC and other matters relating to the purpose of the Loan.

*Section 5.02.* The Bank and TREC shall promptly inform each other of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the performance by either of them of its obligations under this Agreement or the performance by TREC of its obligations under the Subsidiary Loan Agreement.

*Section 5.03.* TREC shall enable the Bank's representatives to inspect all plants, sites, works, properties and equipment of TREC and any relevant records and documents.

*Section 5.04.* TREC shall furnish to the Bank all such information as the Bank shall reasonably request concerning the management, operations and financial condition of TREC.

#### *Article VI*

##### EFFECTIVE DATE; TERMINATION; CANCELLATION AND SUSPENSION

*Section 6.01.* This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

*Section 6.02.* (a) This Agreement and all obligations of the Bank and of TREC thereunder shall terminate on the earlier of the following two dates :

- (i) the date on which the Loan Agreement shall terminate in accordance with its terms; or
- (ii) a date twenty years after the date of this Agreement.

(b) If the Loan Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Bank shall promptly notify TREC of this event and, upon the giving of such notice, this Agreement and all obligations of the parties thereunder shall forthwith terminate.

*Section 6.03.* Subject to the provisions of Section 6.02 of this Agreement, all the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

#### *Article VII*

##### MISCELLANEOUS PROVISIONS

*Section 7.01.* Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this

Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are :

For the Bank :

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

Cable address :

Intbafrad  
Washington, D.C.

For TREC :

Tehran Regional Electricity Company  
Jaleh Square  
Tehran, Iran

Cable address :

Bargh  
Tehran

*Section 7.02.* No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

*Section 7.03.* Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of TREC may be taken or executed by the Managing Director of TREC or such other person or persons as he shall designate in writing.

*Section 7.04.* TREC shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of the person or persons who will, on behalf of TREC, take any action or execute any documents required or permitted to be taken or executed by TREC pursuant to any of the provisions of this Agreement.

*Section 7.05.* Any modification or amplification of the provisions of this Agreement which substantially increases the obligations of the Borrower under Section 3.01 (d) of the Loan Agreement may only be agreed to by TREC with the consent of the Borrower.

*Section 7.06.* This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

International Bank for Reconstruction and Development :

By J. BURKE KNAPP  
Vice-President

Tehran Regional Electricity Company :

By JAHANGIR AMUZEGAR  
Authorized Representative

### SCHEDULE 1

#### SUPPLEMENTARY PROCEDURES FOR PROCUREMENT OF GOODS TO BE FINANCED OUT OF THE PROCEEDS OF THE LOAN

1. Identical or similar items to be procured shall be grouped together to the extent practicable for the purposes of inviting bids, and such grouping of items shall be subject to the approval of the Bank.
2. With respect to any contract for procurement of such goods estimated to cost in excess of \$50,000 equivalent :
  - (a) Before bids are invited, TREC shall submit to the Bank for approval the invitations to bid, specifications and all other tender documents, together with a description of advertising procedures.
  - (b) After bids have been received and analyzed, the bid analysis, the recommendations of the consultants, where applicable, and the proposals for awards, together with the reasons for such proposals, will be submitted to the Bank for review and approval prior to any contract award or the issuance of any letter of intent.
  - (c) If the proposed final contract differs substantially from the terms and conditions contained in the documents previously approved by the Bank under subparagraphs (a) and (b) above, the text of the proposed changes will be submitted to the Bank for its review and approval prior to the execution of such contract or issuance of such letter of intent.
  - (d) As soon as a contract is signed or a letter of intent is issued, and prior to the date of submission of the first application for withdrawal of proceeds of the Loan in respect of any payment thereunder, TREC shall furnish to the Bank a certified copy of such contract or letter.
3. Pursuant to Section 2.04 (a) of this Agreement, the Bank agrees that where any bid is submitted by a supplier (located in the territories of the Borrower) of equipment, materials or supplies manufactured or processed to a substantial extent in the territories of the Borrower as determined by the Bank (Local Bid), the following rules shall be observed for the purpose of comparing such Local Bid, as thus defined, to any bid other than a Local Bid (i.e., a Foreign Bid) :

(a) All customs duties and similar taxes on the importation of the goods offered shall first be deducted from the total of each competing Foreign Bid.

(b) The portion of each competing Foreign Bid representing the c.i.f. landed price of the goods shall then be increased by 15% thereof or the rate of such duties, as applicable to non-exempt purchasers in the territories of the Borrower for the importation of such goods, whichever is lower.

(c) Inland freight, insurance and other costs of delivery to the place of their use or installation shall be added to (b) above.

(d) The resulting figure shall be deemed to be the comparison price of the Foreign Bid.

(e) For the purpose of determining the lowest evaluated bid such comparison price of the Foreign Bid, after converting it into the currency of the Borrower at the exchange rate which prevailed 30 days prior to the date on which bidding was closed, shall then be compared with the price of the goods offered in the competing Local Bid.

(f) The comparison bid price of a Local Bid shall be the sum of the ex-factory price of such goods plus the inland freight, insurance and other costs of delivery to the place of their use or installation.

(g) In cases where an award of a contract based on a Local Bid is recommended, the analysis of bids shall state the rate of duties which would be applicable to a purchaser for the importation of such goods.

4. With respect to any contract for procurement of such goods estimated to cost no more than the equivalent of \$50,000, TREC shall submit to the Bank, at the time the award is made, a summary of bids or quotations received, the analysis thereof and the recommendation thereon, together with a copy of the *procès-verbal* of the public opening of the bids. As soon as such a contract is signed, and prior to the date of submission of the first application for withdrawal of proceeds of the Loan in respect of any payment thereunder, TREC shall furnish to the Bank a certified copy of such contract.

5. Pursuant to Section 2.04 (a) of this Agreement, minor items or groups of items involving expenditures expected to be less than the equivalent of \$10,000, may be procured without resort to international competitive bidding. Quotations for the supply of such items, however, will be requested from at least two competing suppliers. A conformed copy of each contract relating to such procurement will be sent to the Bank promptly after its execution and prior to the date of the first application of withdrawal of proceeds of the Loan in respect thereof.

6. Pursuant to Section 2.04 (a) of this Agreement, components required to be compatible with the existing equipment, subject to prior approval by the Bank, may be procured without resort to international competitive bidding. Quotations for the supply of such items will be requested from more than one competing supplier, where possible. A conformed copy of each contract relating to such procurement will be sent to the Bank promptly after its execution and prior to the date of the first application of withdrawal of proceeds of the Loan in respect thereof.