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~~Doc.~~ 2650236②  
~~Ref~~  
PD-AAC-275-B1

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

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265-236  
75p.

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

IRAN - Management and Other Assistance for  
Development of Electric Power Industry

AID-DLC/P-416

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DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

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AFD-LLC/P-416  
May 16, 1966

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Management and Other Assistance for Development of  
Electric Power Industry

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$6,500,000 to the Imperial Government of Iran, acting through the Plan Organization, to assist in financing the foreign exchange costs of the services required to establish and develop management, operations and training skills needed in the development of the electric power industry in Iran, the provision of feasibility and other studies that will be needed as the development program progresses, and the provision of equipment needed for the training of Iranian personnel in the operation and maintenance of modern generation, transmission and distribution facilities.

This loan proposal will be consideration by the Development Loan Staff Committee at a meeting in the near future.

Rachel C. Rogers  
Assistant Secretary  
Development Loan Committee

Attachments:  
Summary and Recommendations  
Project Analysis  
Annexes I-V

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IRAN: MANAGEMENT AND OTHER ASSISTANCE  
FOR DEVELOPMENT OF ELECTRIC POWER INDUSTRY

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IRAN

MANAGEMENT AND OTHER ASSISTANCE FOR DEVELOPMENT OF  
ELECTRIC POWER INDUSTRY

Summary and Recommendations

1. Borrower: The Borrower would be the Government of Iran (GOI) acting through the Plan Organization. The executing agency would be the Ministry of Water and Power.
2. Amount: \$6.5 million
3. Total Estimated Cost of Project: The total cost of the project is estimated to \$10.0 million of which \$6.5 million is the dollar cost to be provided by the AID loan and \$3.5 million is the local currency cost to be provided by the GOI from its own resources.
4. Purpose of Project: The loan would assist in financing the dollar cost of management, operations, and training services and feasibility studies needed for the development of the electric power industry in Iran.
5. Background: Under Iran's Third Five Year Plan (1962-67), the GOI is proceeding with an extensive program for the development of the electric power sector. The program will be continued during the period of the Fourth Five Year Plan (1968-73). A total government investment of 21 billion rials (approximately \$280 million) is provided for the electrification program in the Third Plan and the investment under the Fourth Plan is expected to be larger.

In March 1964 the GOI requested U. S. assistance for the electrification program. In response to this request the U. S. offered to support the electrification program by making loans in an amount up to \$78 million to assist in financing the dollar costs of projects related to the program. Of this amount \$68 million was to be provided by the Export-Import Bank and up to \$10 million by AID. In April 1965 the Export-Import Bank authorized a credit of \$20 million to the GOI to finance the acquisition of two 82.5 megawatt generating units and related spare parts, materials and services for the city of Tehran. The Bank is now considering a loan application for \$9

million to finance a third 82.5 megawatt unit for Tehran. The GOI recently proposed to the Bank that the \$39 million balance of its \$68 million commitment be used to finance projects for the development of the petrochemical industry in Iran instead of electric power, and the Bank has agreed to this proposal. The U. S. commitment of \$78 million in support of Iran's electrification program has therefore been materially altered, but the GOI has indicated to the Bank that it expects to seek additional U. S. financing for power projects in the future.

The GOI recognizes the need for expert consultants to assist it in planning the electrification program, in the management and operation of the electric utility systems which are being or will be constructed under the program, and in training Iranians to manage, operate and maintain these systems. It has requested that AID provide funds to finance this assistance.

AID has already agreed to provide planning assistance under a Project Agreement for an Electric Power Energy Survey which was signed in January 1966. The Project Agreement provides for joint AID/GOI financing of the dollar and local currency costs of a group of American electric power specialists who will assist the Plan Organization and the Ministry in long-term power industry planning in relation to the overall economic development requirements of Iran. The management, operations and training services and feasibility studies to be financed by the proposed loan would supplement the planning activities being undertaken under the Electric Power Industry Survey.

6. Ex-Im Clearance: At a meeting of the Export-Import Bank/AID Liaison Group on April 4, 1966, the Bank's representative stated that this application was more appropriate for consideration by AID in view of the prior understanding that AID would finance this type of activity as part of the commitment made by the U. S. Government in connection with the support of the Iranian Electrification Program.
7. Mission Views: The Capital Assistance Paper was prepared by the Mission and reflects its views. The Country Team recommends approval of the loan.

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8. Statutory Criteria: The relevant statutory criteria have been met. See Annex I .
9. Issues: The major issues were resolved during the intensive review of the loan application.
10. Recommendations: Authorization of a loan in an amount not to exceed \$6,500,000 to the Government of Iran acting through the Plan Organization on the following terms and conditions:
- (a) The Government of Iran to repay the loan to AID in U. S. dollars within 25 years from the date of the first disbursement under the loan, including a grace period of not to exceed five years from the date of the first disbursement. The Government of Iran to pay interest to AID in U. S. dollars at the rate of  $3\frac{1}{2}\%$  per annum on all amounts of principal outstanding under the loan.
  - (b) The Government of Iran to produce evidence satisfactory to AID that other funds in an amount sufficient to complete the project have been or will be made available.
  - (c) All goods and services financed from the proceeds of the loan to be procured from and have their source and origin in the United States.
  - (d) The loan to be subject to such other terms and conditions as AID may deem necessary.

## Capital Assistance Committee

	<u>At the Mission</u>	<u>At AID/W</u>
Loan Officer	H.H.M. Wilbur	W.A.Underwood
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Drafting Officers: Towsley, Underwood, Vieregg; Wilbur, Boucher, Westberg

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IRAN: MANAGEMENT AND OTHER ASSISTANCE FOR DEVELOPMENT OF  
ELECTRIC POWER INDUSTRYI. BRIEF PROJECT DESCRIPTION

1. The project will provide an institutional development program for the Ministry of Water and Power and for the Regional Utility Companies which are being established to serve the major load centers in Iran. It will assist in accomplishing the following objectives:

	(\$000)
a. Effective regulation and control of the Regional Utility Companies by the Ministry of Water and Power.	2,050
b. Necessary feasibility studies.	1,400
c. Vocational and on-the-job training.	600
d. Economic and effective operation of the Regional Utility Companies.	<u>2,450</u>
	6,500

2. The Ministry of Water and Power is negotiating a contract with Harza Engineering Company for the management, operations and training services required for the orderly development of the electric power industry in Iran. The Ministry would like Harza to begin these services as quickly as possible and the contract may therefore be signed before the proposed loan is authorized. The Mission has informed the Ministry that if the loan is approved, it will be necessary to amend the contract to conform to AID requirements as a condition precedent to the disbursement of loan funds.

Provision will be made for expanding the scope of the Harza contract as the work progresses. The need for additional services can be foreseen now but should not be included in the contract at the outset because the scope of these services will become more clearly identifiable during the next two years.

3. The Loan Agreement will expressly provide that (a) AID shall have the right, prior to the termination of the AID program in Iran in June 1968, to review the effectiveness of the utilization by the GOI of the management, operations and training services provided under the Harza contract and to terminate AID financing of the contract and to cancel the balance of the loan if in its judgment the GOI is not taking appropriate advantage of this assistance, (b) the additional services

to be provided under the Harza contract and the project feasibility studies to be financed under the loan must be identified and mutually agreed to by the GOI and AID and the AID loan funds provided for these services and studies must be committed by contract or amendment to an existing contract prior to June 30, 1968. If any portion of the AID loan funds provided for these services and studies remains uncommitted on June 30, 1968, the loan shall be reduced by that amount.

## II. BACKGROUND

4. The Government of Iran (GOI) has been carrying out the economic development of the country pursuant to comprehensive, fixed-term plans prepared by the Plan Organization and enacted into law by the Parliament. These plans are financed primarily by Iran's oil revenues, 70% of which have been earmarked for economic development purposes, and by foreign loans. For the Iranian fiscal year beginning March 21, 1966, the portion of oil revenues earmarked for development has been increased to 75%, estimated at about \$450 million for the current year.

5. During the period of the Second Five Year Plan (1957-62), the generation, transmission and distribution of electric power was carried on by a number of unrelated operations scattered throughout the country. Public municipal plants were in existence at Tehran, Shiraz, Babol, Abadan and Khorramshahr and private generating plants provided electricity for Meshed, Resht, Tabriz, Isfahan, Kerman, Hamadan and Ahwaz. Under the Second Plan, the Plan Organization undertook a program to provide approximately 40 megawatts (MW) of new generating capacity through the medium of 90 municipal improvement projects in small towns. The main purpose of these projects was to provide reliable municipal lighting. The Plan Organization provided 50% of the facility installation costs and the respective municipalities paid the balance.

6. For the Third Five-Year Plan, covering the period from September 1962 to March 1968, the portion of oil revenues earmarked for economic development is projected to reach a total of \$1,956 million. From oil revenues and foreign loans, the Plan Organization has thus far received a total of \$925 million for the Third Plan period. The GOI has ample resources for economic development but lacks the competence required to allocate, manage, and make the best use of these resources.

7. The Third Plan recognizes the need for modernizing and expanding the electric power industry throughout the country by providing for a major government investment in the power sector. Under the Third Plan, the GOI has undertaken a concerted, large-scale effort to provide adequate electric power facilities for the country and to develop the best possible institutional framework and practices for the power sector. The Plan contemplates an aggregate GOI investment of 21 billion rials (approximately \$280 million) to add a total of 79<sup>1</sup>/<sub>4</sub> MW of generating capacity and

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related transmission and distribution facilities and to develop the necessary institutions during the period 1962-68. The plans for this investment are discussed in more detail in paragraph 38 below.

8. At the beginning of the Third Plan period in 1962, the GOI was aware of the problems it faced in accomplishing the objectives of the electrification program. These problems included the absence of:

- (a) an effective regulatory agency,
- (b) uniform rate-making procedures,
- (c) well-defined financial practices,
- (d) a functional organization structure and pool of trained manpower, and
- (e) the necessary expertise to meet the management, operations and training needs of the expanding power industry.

9. Since 1962 the GOI has taken a number of steps looking towards the ultimate resolution of these problems and the desired rapid but orderly expansion of the industry. In an initial effort to centralize the responsibility for coordinating and guiding the planning and implementation of the program, the GOI established the Iran Electric Authority in 1963. The Ministry of Water and Power was established in 1964 and the Authority was dissolved in 1965 when its functions and responsibilities were assigned to the Power Division of the Ministry. The Power Division has competent and dynamic leadership and has, among other things, completed its own master electrification plans for 25 medium-sized towns. The Ministry has drafted a proposed law (the Iran Electricity Bill) to provide the legal framework within which the power industry will be developed. The bill is presently undergoing final revision by the Ministry and is expected to be presented to Parliament for enactment into law in the near future.

10. In addition to the steps taken within the GOI itself, several projects have been undertaken with the assistance of foreign consultants and financing. One of these projects, the preparation of master electrification plans for six major load centers, was undertaken by an American engineering firm, Gilbert Associates, Inc. and financed by AID under Development Loan No. 265-H-016. The six load centers were Tehran, Isfahan, Kerman, Hamadan, Kermanshad and Shiraz. The Ministry has placed orders for generating units for Tehran which ~~exceed~~ exceed the capacity originally recommended in the master plan for Tehran prepared by Gilbert Associates. Similar master plans for four other major load centers, Tabriz, Resht, Meshed and Babol-Shahi-Sari have been prepared by a French engineering

firm, Sofrelec-Atras, under a contract financed with French credits. In 1963 the World Bank made a grant of \$750,000 to the GOI to finance a contract between the Plan Organization and Stone & Webster Service Corp. for advice and assistance in the establishment of a regulatory agency for the electric power industry and for review of the master electrification plans. The Ministry made very little use of the services or of the recommendations of the Stone & Webster consultants. The Stone & Webster contract was terminated in the summer of 1965 by mutual agreement of the parties and the Bank.

11. Electric power is one of the major elements in the Khuzestan Development Project in southwestern Iran. This project is being carried out by the Khuzestan Water and Power Authority with the assistance of an American consulting firm, Development and Resources Corporation, and a \$45 million loan from the World Bank. The project is built around the Mohammed Reza Shad Pahlavi (formerly Dez) Dam and includes the installation of eight turbo-generators with a capacity of 65 MW each and the erection of high-voltage transmission lines linking the hydroelectric power plant with the five major cities of Khuzestan. The first generating unit went into commercial operation in May 1963.

12. Mr. Arthur B. Viereg, NESA/ENGR, visited Iran and reviewed the overall power situation in February 1962. Upon his return to Washington, Mr. Viereg prepared a report entitled "Report on Electricity Study in Iran" in which he outlined a program for the development of the power industry. The first phase of the program was the preparation of master electrification plans coupled with the establishment of regulated, regional electric utility companies for each of the ten major load centers mentioned in paragraph 7 above. The master plans have been completed and the GOI has enacted legislation authorizing the creation of regional utility companies.

13. Because of AID's interest in the development of the electric power sector as a priority item in the overall economic development of Iran and its investment in the master electrification plans, and in view of the potential market for U. S. equipment and services in the power sector, a series of negotiations between the United States Government (USG) and the GOI was initiated in March, 1964 with respect to the possible financing by AID and the Export-Import Bank (EXIM) of further projects in this sector. In July 1964 the USG offered to provide assistance for the electrification program in the form of additional loans for suitable projects in an amount up to \$78 million. Of this amount \$68 million was to be provided by EXIM and \$10 million by AID. Owing in part to a belief by the Iranian officials engaged in the negotiations that American equipment

might be more expensive than similar equipment available from other sources, the negotiations did not culminate in a final understanding until November 1964, when the GOI accepted the USG's offer of assistance. Pursuant to this understanding, EXIM authorized a credit of \$20 million in April 1965 to finance two 82.5 MW generators for the Farahabad plant in Tehran. In May 1965 it received an application for an additional credit of \$9 million for a third 82.5 MW generator for Farahabad. <sup>1/</sup> EXIM has deferred its decision on this application pending completion of arrangements by the GOI for improvements in the management, operations and training needed for the power industry. The principal purpose of the proposed AID loan is to finance the necessary arrangements.

14. In February 1966 the GOI Plan Organization informed EXIM that the prospects for using the balance of the Bank's \$68 million commitment for projects in the power sector were doubtful and requested that EXIM agree in principle to earmark this balance for the development of petrochemical industries in Iran. EXIM replied in March 1966 that it was prepared to agree to the Plan Organization's request with the understanding that, as usual, loan applications for individual projects would be submitted to the Bank for study and approval and that any financing would be made at the Bank's then prevailing rate of interest and on repayment terms appropriate to the projects in question. Both the Plan Organization and the Bank left the door open for possible future EXIM financing of petrochemical and power projects in an amount over and above the balance of the original \$68 million commitment.

15. The \$10 million AID portion of the USG financing package was to be made available initially out of FY 1965 Development Loan Funds, but was subsequently carried over to FY 1966 when it became apparent that development by the GOI of a project appropriate for AID financing would not be possible prior to the end of FY 1965. The delay on the part of the GOI in submitting applications for the AID financing was attributable in large measure to program uncertainties resulting from changes in individual city development plans.

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<sup>1/</sup> In its original master electrification plan for Tehran Gilbert Associates recommended the procurement and installation of two 37.5 MW units at Tarasht to be followed a year or so later by the installation of two 75 MW units at Farahabad. Gilbert subsequently changed the master plan for Tehran to take into account the three 82.5 MW units ordered by the Ministry of Water and Power in order to design the other appropriate facilities required because of this commitment.

16. In response to the GOI's need for a comprehensive development plan, the USAID Mission initiated discussions in the spring of 1965 on a proposal to assist the GOI in carrying out a nation-wide survey designed to establish the planning basis for the power program for all of Iran in relation to the country's overall development program. AID has committed \$245,000 of Development Grant Funds under a Project Agreement for an Electric Power Energy Survey which was signed on January 29, 1966. The funds will be used to finance the foreign exchange costs of the survey which will be made by a group of American electric power industry specialists under the leadership of Mr. Walker Cisler, Chairman of the Board of Detroit Edison Company and consultant on electric power programs and projects in developing countries. Care was taken in drafting the terms of reference for the survey project to avoid any possible overlap between the services to be performed by the Cisler group and the services to be performed under the proposed loan. The objectives of the two projects are complementary, with the Cisler survey designed to provide the basis for long-term power industry planning related to overall economic development requirements, and the project to be financed by the proposed loan providing the management, operation and training assistance required for effective development of the institutions and operation of the facilities which are needed to carry out the electric power industry expansion outlined in Section VI, Economic Aspects.

### III. PREVIOUS AID FINANCING

17. AID and its predecessor agencies have made the following grants and loans in support of the electric power sector in Iran:

<u>Purpose</u>	<u>Date</u>	<u>Amount</u> <u>(\$000)</u>
<u>Grants</u>		
Improvement of Shiraz Municipal Power System (generation and distribution facilities)	1952-56	487
Third Plan Electricity Study (technical assistance)	1963-65	62
Electric Power Energy (Cisler) Survey (long-term planning assistance)	1966-67	<u>245</u>
Sub-total, Grants		794

<u>Purpose</u>	<u>Date</u>	<u>Amount</u> <u>(\$000)</u>
<u>Loans</u>		
Tehran Electric System, portion of AID Loan No. 265-A-005 (DEF 34) in amount of \$45.9 million for Economic Development (high-voltage transmission lines from the hydroelectric power plant at the Karaj Dam to the city of Tehran)	1959-60	2,500
Master Electrification Plans, AID Loan No. 265-H-016 (master electrification plans for six major load centers)	1963-65	<u>900</u>
Sub-total, Loans		3,400
Total Previous AID Financing		4,194

IV. BORROWER

18. The Borrower will be the Government of Iran acting through the Plan Organization, an agency of the Government responsible directly to the Prime Minister. The Plan Organization was established over fifteen years ago and is currently functioning under the Third Plan Law. The Plan Organization is charged, among other things, with the responsibility for long-range economic planning and is the formal representative of the GOI in loan negotiations with foreign governments.

19. The implementing agency will be the Ministry of Water and Power. The chief of the Ministry's Power Division has been designated as the Project Manager. It is contemplated that arrangements will be made between the Plan Organization and the Ministry whereby the Ministry will authorize payments under the loan without further clearances by the Plan Organization after the Loan Agreement has been signed. Since the project will produce no revenues directly, and the Ministry of Water and Power is not a revenue-earning enterprise, it is not recommended that the GOI re-lend the proceeds of the proposed loan to the Ministry.

20. Prior to the establishment of the Ministry in 1964, the electric power development program had been entrusted to the Iran Electric Authority,

an agency created by the Parliament in 1963 to guide the initial phases of the power industry development program. When the Ministry was created in 1964, the operational and regulatory functions and responsibilities were initially divided between the Ministry and the Authority. The latter was abolished in 1965 and the Parliament assigned all of its functions and responsibilities to the Power Division of the Ministry. The Power Division will have primary authority and responsibility with respect to the proposed project.

21. The Power Division is headed by an Under Secretary of the Ministry, Engineer Hamid Salehi. Engineer Salehi is an Electrical Engineering Graduate of Honorsarayeh Ae 'li, Tehran (1941), was born in 1921, and has had 25 years of increasingly responsible experience in engineering and administrative matters. The talent that he will direct comes largely from the old Iran Electrification Authority. Late in 1964, this consisted of 21 engineers, 14 technicians, 41 administrative, financial, legal and economic employees, and 23 others, for a total of 99. It is the opinion of the Mission and the Loan Committee that the Power Division, under the capable direction of Engineer Salehi, possesses the interest, capability and influence to make full and effective use of the assistance to be provided by this project. This interest has already been shown in the progress of the Cislser Survey. Engineer Salehi and his deputies are participating actively and good rapport has been established with the Cislser group.

22. The Ministry and its predecessor, the Iran Electric Authority, ignored to a large extent the advice of Gilbert Associates, financed by AID Loan No. 265-H-016, Master Electrification Plans, and of Stone & Webster Services Corp., financed by a World Bank grant. Mr. Vieregg, NESAs/ENGR, discussed this problem with representatives of the Plan Organization and the Ministry during his visit to Tehran in February 1966. The GOI representatives said that the advice provided by Gilbert and Stone & Webster was premature in that neither the Authority nor the Ministry was ready to accept it at the time it was offered. They assured Mr. Vieregg that the situation had changed and that the Ministry is now fully aware of its shortcomings and of the need for planning and management assistance. AID will make careful annual reviews of progress under the Electric Power Energy Survey being financed by Development Grant funds and the project to be financed by the proposed loan and will terminate its financing of either or both of these projects if in its judgement the GOI is not taking proper advantage of this assistance. An especially thorough review of the GOI's utilization of this assistance will be made just prior to the scheduled termination of the AID program in Iran in June 1968.

V. DETAILED PROJECT DESCRIPTION

23. The project will consist of assistance to the GOI in the form of management, operations and training services, feasibility studies, and training equipment and materials needed for the development and execution of the GOI's program for electric utility management, operations, training and expansion. The GOI is carrying out an electric utility planning program based on the planning assistance previously provided by foreign consultants, the assistance now being provided by the Cisler group, and its own planning efforts. The project will be an implementation program directed to bringing about the efficient and orderly development of modern electric utility systems in Iran based upon the planning efforts accomplished to date, those now in progress, and those that can be foreseen over the next several years.

24. The assistance will be provided over a five-year period beginning in 1966 and ending in 1971. Some of the assistance which will be needed can be readily formulated in detail now. Additional assistance will be formulated during the next two years as management deficiencies become apparent and as plans are prepared for the further development of the power sector under the Fourth Five Year Plan (1968-73). The GOI will prepare these plans with the assistance of the Cisler group.

25. The principal components of the project and their estimated dollar costs are as follows:

(\$000)

- |    |  |       |
|----|--|-------|
| a. | Assistance to the Ministry of Water and Power in the organization, staffing and initial operations of its Power Division and the training of its employees for the successful regulation and control of the Regional Utility Companies which are being established to serve the principal load centers in Iran. (20 man years) | 800   |
| b. | Assistance to the Ministry of Water and Power in formulating general policies, rules, regulations, standards and codes, a uniform system of accounts, and reporting procedures to assure operation of the Regional Utility Companies in the best interests of the people of Iran. (30 man years)                               | 1,250 |

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	(\$000)
c. Assistance to the Ministry of Water and Power in (a) recognizing the need for feasibility studies resulting from the planning which has been done and the planning now being done by consultants and the Ministry, including studies indicated by the Cisler Survey, and (b) arranging for these studies. (40 man years)	1,400
d. Assistance to the Ministry of Water and Power in formulating and carrying out training programs for Iranians in the day-to-day operations and maintenance of the components of electric utility systems. (10 man years)	350
e. Training equipment and materials.	250
f. Assistance to the Regional Utility Companies in organization, personnel policies and procedures, accounting, material handling, detailed specifications, cost estimating, bid evaluation, consumer and public relations, budgeting and fiscal control, communication systems, load dispatching, safety practices, and establishing detailed training programs for all aspects of their operations. (70 man years)	2,450
Total - 170 man years	<u>6,500</u>

26. Most of the assistance will be obtained through the use of U. S. experts who will work with Iranian counterparts in the Ministry and in the Regional Utility Companies. The experts will assist their Iranian counterparts, but most of the work will be accomplished by the Iranians. The experts assigned to the Regional Utilities will be rotated among the Utilities according to need. The experts assigned to the Ministry will generally remain there for the duration of the project.

27. The services of the U. S. experts will be provided under the terms of a contract between the Ministry and a firm of U. S. consulting engineers. The scope of the work of the proposed contract is set forth in Annex II. Additional services will be added as required. These are

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expected to include approximately 16 man years for the preparation of design standards for transmission and distribution systems; four to five man years for the preparation of rate schedules, development and installation of modern accounting systems; plus computer and calculator board studies to determine the most economic design criteria. These services and studies should not be included in the contract at the outset because the need for them, although foreseen now, will become more clearly identifiable as the work progresses.

28. In the case of the feasibility study component, a somewhat different approach will be taken. The experts will assist in determining which feasibility studies are needed and will help in preparing the scope of services and in selecting the organization to make the studies. Initially, a U. S. consulting engineering firm, other than the General Consultant providing the management, operations and training services, will be responsible for making studies, but as Iranians gain experience it is expected that they will progressively undertake more difficult studies on their own. The studies are expected to encompass, (1) the size, location, and timing of transmission construction; (2) the size, location, and timing of generation plant installation; (3) interconnections between Regional Utilities; (4) the expansion of distribution facilities, and (5) the need for communications, control and load dispatching systems.

29. In the case of the training component, the U. S. experts will provide on-the-job training in the Ministry and the Regional Utility Companies. In addition the Ministry will establish a separate vocational training school for Iranians. The U. S. experts will help develop the training requirements, advise on staffing, and recommend the needed equipment. The Ministry will furnish the headquarters, staff the school, and equip it according to accepted recommendations. A portion of the proposed loan will be used to purchase the equipment. The balance of the costs including those needed to provide buildings will be borne by the Ministry. The specific amount and kinds of training equipment will be suggested by the U. S. experts. The training aids which will be financed under the loan will consist of tools, work equipment, and communication and control equipment.

30. The above components were selected after detailed review by the Ministry, the Mission, and AID/W officials to provide the type of assistance needed to make effective use of the work accomplished under AID Loan No. 265-H-016, Master Electrification Plans, the French grant for similar plans, the World Bank grant of assistance for the organization of a regulatory agency, the planning efforts of the Ministry to date, and the expected results of the Cisler Survey. It was recognized that

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the Ministry and the Utilities need expert guidance in implementing the Regional Utility program in practically all fields. The fields of the experts were selected to satisfy these needs.

31. The lack of expertise in the Ministry and the Regional Utilities is principally accounted for by lack of experience. By U. S. standards there are few operating utilities in the country which are effectively and economically operated and managed. Most systems are small, isolated, and aimed to serve only immediate needs. The concept of utility responsibility is only now getting a start in Iran. It is encouraging that the Ministry accept this concept and recognizes the need for outside help in directing it.

32. The purpose of the feasibility studies is to up-date, enlarge upon, and bring into focus the planning efforts of the Iranians and their consultants. The more important recent studies are those of the Gilbert team for six load centers which was financed by AID Loan No. 265-H-016, the Sofrelec studies for four additional load centers financed by a French grant, the electric power component of the Khuzestan Development Project, and the plans being prepared by the Ministry for 25 load centers, plus the planning expected to result from the Cislser Survey. The additional feasibility studies will give detailed guidance to the Ministry in enlarging the Regional Utilities in a practical manner and will assist in securing financing from outside sources.

33. Most of the training provided by the experts will be on-the-job training at higher management levels in the Ministry and the Regional Utilities. In order to provide a cadre of trained technicians to perform the more detailed operating and maintenance functions of the Regional Utilities Companies, the Ministry plans to establish a vocational school to develop the necessary electrical and mechanical skills. This element of the project is needed to assure safe and economical operations of the electric power facilities.

34. The expertise needed for the project will require the type of man who has held responsible positions in the electric utility industry in the United States. Most of the men employed under the contract for management, operations and training services will have been brought up in the private sector and their influence will serve as an inducement to the GOI to permit private investment participation in the Regional Utility companies. The GOI is in the formative stages of deciding the kinds of ownership most likely to fit its needs and this exposure should help it direct its thoughts to permitting private participation as it may become available. A draft copy of the proposed "Iran Electricity Bill" was made available to the Mission and AID/W in February 1966.

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Although it has not yet been passed in its revised form, it makes provision for government, municipal, private or mixed ownership of the Regional Utility Companies.

## VI. ECONOMIC ASPECTS

### A. Economic Justification

35. The Third Five-Year Plan (1962-68) provides for a GCI investment of 21 billion rials (approximately \$280 million) in the power sector. Of this amount \$42 million had been paid out as of December 31, 1965. On the basis of the general planning outlined in the Third Plan, 17 billion rials (approximately \$227 million) is earmarked for investments in the major load centers, 2.5 billion rials (approximately \$33 million) for medium load centers, and 1 billion rials (approximately \$13 million) for small load centers. The remaining 500 million rials (approximately \$7 million) is intended for the local currency and foreign exchange costs of planning, technical assistance and feasibility and other studies such as those already completed by Gilbert, Sofrelec-Atras and Stone & Webster. The expenditures are intended to provide an additional 794,000 KW of generating capacity. The anticipated energy source for this increase in power generation is 14% hydraulic, 30% diesel and 56% steam.

36. The nature of the current situation regarding electric power generation in Iran is indicated by the following summary estimates:

#### Estimate of Electric Power Situation in Iran During 1962-63

<u>Category of Generation</u>	<u>Installed Capacity in Thousands of KW</u>	<u>Power Generated in Millions of KWH</u>
Thermal & Diesel "Utilities"	320	780
Hydro Power <u>1/</u>	230	180
Oil Sector	130	600
Industrial Sector	415	1,400
Other	15	30
Total <u>2/</u>	<u>1,110</u>	<u>2,990</u>

1/ Potential generating capacity of completed dams totals about 735 thousand KW.

2/ As of 1965, these totals probably exceed 1,200 thousand KW and 3,600 million KWH.

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In terms of the number of establishments engaged in the generation of electric power, an estimate as of 1962-63 shows the following:

Number of establishments engaged exclusively in the generation of electric power:

Municipal Plants	134
Other Public Plants	21
Private Plants	<u>205</u>

Sub-total 360

Number of industrial establishments generating electric power: 1,842 1/

Grand Total 2,202

1/ A substantial but unknown number of industrial establishments generate power for sale to other establishments and to residential and commercial consumers.

37. The rudimentary nature of the electric power system of Iran is evident from data which show that for 25 small cities a total of 160 generating units are utilized to provide a total installed capacity of only 70,000 KW. For Tehran, 20 units are required to attain a generating capacity of 170,000 KW. A corollary finding is a limited transmission system. Only 628 KM of lines are available throughout Iran. Of this total, only 159 KM is of 220 KV and this line runs from the Pahlavi Dam to Ahwaz. For plants engaged exclusively in power generation, some 80% goes for residential consumption resulting in a load factor of about 40%, with loss of input amounting to over 20% for cities other than Tehran. For over 40% of the customers, the price per KWH is in excess of 4 rials (\$.053).

38. With regard to new generating capacity already purchased or firmly under procurement, larger units show as follows:

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	<u>Number of Units</u>	<u>Thousands of KW each</u>	<u>Total KW in Thousands</u>
Tehran, oil	3	82,500	247,000
Tehran, gas turbine	2	12,500	25,000
Tabriz	2	6,000	12,000
Esfahan	2	37,500	75,000
Shiraz	1	8,000	8,000
Meshed	2	12,500	25,000
Sefid Rud Dam	3	17,500	52,500
Pahlavi Dam	1	65,000	65,000
Latian Dam	1	22,500	22,500
	<hr/>	<hr/>	<hr/>
Total	17		532,500

At the same time, bids have been invited for 68 generating units for 30 small and medium-sized cities as follows:

	<u>No. of Units</u>	<u>Total KW</u>
750 KW	17	12,750
1,200 KW	8	9,600
1,500 KW	29	43,500
2,000 KW	6	12,000
3,000 KW	8	24,000
	<hr/>	<hr/>
Total	68	101,850

39. It is evident that Iran is on the threshold of a structural change in its power sector. Not only will the current consumption of electric power rapidly increase from the present level of about 160 KWH per capita, but in addition, large, low-unit cost plants, together with high voltage transmission lines, will lead to area-wide integrated power grid systems. Certain dislocations will be imposed on present generating facilities of both the public and private sector, with many small units reserved for stand-by power or relocated to outlying areas. With a rapidly expanding public power system, investment in private sector industry will be induced because of reduced investment requirements for related power.

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40. The changes now developing in Iran's power sector are reflected in the language of the all-encompassing Iran Electricity Bill presently undergoing final revisions prior to submission to the Parliament for enactment into law. The role of the Ministry of Water and Power to control and regulate the electric power sector will be greatly increased. In addition, the Ministry will be responsible for insuring the availability of electric power consistent with the requirements of accelerated economic growth. Ultimately, all generating, transmission or distribution facilities in Iran will be under surveillance and subject to regulation by the Ministry of Water and Power.

41. Investment in management assistance to the Ministry of Water and Power should be considered in this context. Since the Ministry was established in 1965, it is still in the process of becoming acquainted with its existing responsibilities. The problems of data collection, analysis, staffing, coordination and policy making are of pressing concern.

42. The project will provide the kind of technical assistance which the Ministry of Water and Power and the Regional Electric Companies need in order to carry out a sound electric utility and institutional development program based on planning being provided separately. It will lay the foundation for the adoption and implementation of the most economical operation and management of the electric utility industry in Iran. The project is expected to accomplish the following major objectives.

a. Provide a more orderly and economical expansion of the utility industry to prevent premature investment and early obsolescence.

b. Provide for the orderly and efficient regulation, control, management, and operations of the utility industry.

c. Assist in the training of top management and technicians.

43. The issue of balance between investment in plant and investment in management is germane to the consideration of the project. A conservative estimate of the total investment in Iran's electric utility systems by the end of 1975 is \$2 billion. This \$10 million project (including both foreign exchange and local currency costs) would represent only  $\frac{1}{2}$  of 1% of the total investment and is a relatively modest price to pay for the badly needed institutional development which it will help to bring about. The project is premised on the assumption that, at this stage of Iran's overall economic development, investment in management is capital-saving and will yield a high rate of return.

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44. Although the GOI recognizes the need for the kind of assistance to be financed by the proposed loan and the contribution which this assistance will make to the orderly development of the power industry and of the economy as a whole, there is no indication that it is prepared to use its own resources for this purpose or that it could obtain financing for the project from other free-world sources on reasonable terms. See also paragraph 52 below.

B. Impact on United States Economy

45. All services and equipment financed under the proposed loan will be procured from the United States. No Iranian exports or competition with United States firms are involved. Since all of the proceeds of the loan is to be spent in the United States, the effect upon the U. S. economy will be favorable. It is expected, moreover, that as a result of the activities to be financed by the proposed loan a reasonable share of the large GOI investment planned for new generation and transmission facilities will be spent in the U. S. Although it is not possible to predict with accuracy when purchases in the U. S. of new facilities will take place, it is anticipated that the larger facilities in respect to which U. S. firms are competitive will be needed during the Fourth Five Year Plan beginning in 1968. In short, the loan will have a favorable impact on the U. S. economy by helping to develop a substantial market for capital goods of U. S. origin.

C. Repayment Prospects

46. At the beginning of 1965 Iran's medium and long-term debt, including amounts committed but undisbursed, amounted to about \$627 million, with debt service charges for interest and amortization totalling \$70 million for that year. These debt service charges represent less than 10% of foreign exchange receipts for 1965. Iran's debt-servicing capacity allows for new foreign exchange borrowings at a minimum level of \$100 million per year for the next several years. In view of Iran's large and growing oil revenues and the favorable ratio of debt service charges to foreign exchange earnings, the prospects for repayment of the proposed loan are good.

D. Effect of Loan on Private Enterprise

47. None of the proceeds of the loan will go directly to private enterprise or to intermediate credit institutions or to other borrowers for use by private enterprise. The entire amount of the loan, \$6½ million, will be used to finance imports from private sources in the United States. The loan will assist private enterprise in Iran by contributing to the orderly development of a well managed and operated electric power industry which will provide an ample and dependable supply of energy at reasonable prices for private agricultural, commercial, industrial and domestic use.

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VII. IMPLEMENTATION PLAN

48. The GOI recognizes the urgent need for management assistance in the power sector and is anxious to get started. During 1965 the Ministry of Water and Power discussed the proposed contract for management, operations and training services with three U. S. consulting engineering companies - EBASCO, Stone & Webster Services Corp., and Harza Engineering Co. EBASCO made no proposal because of its other commitments and Stone & Webster withdrew its offer because it was not willing to negotiate with the Ministry regarding the contract price. Thereafter, beginning early in 1966, the Ministry undertook negotiations with Harza which have resulted in a draft contract satisfactory to both parties. AID reviewed the draft contract and recommended some changes. Certain additional modifications will be required to meet AID requirements. With these changes and modifications, the contract will be satisfactory to AID. The contract may be executed prior to authorization of the proposed loan. In that event the eligibility date for reimbursement of dollar expenditures made by the GOI under the terms of the contract would be the date of execution of a contract satisfactory to AID.

49. The proposed Harza contract represents the initial step in obtaining the services required for the project. The scope of work of the Harza contract was selected to provide immediately these most needed services which the Ministry can absorb at this time. The Harza contract calls for two teams, one of eight members to be assigned to the Ministry and the other 13 members to be rotated among the Regional Utility Companies as needed. The contract calls for approximately 90 man years of effort over an estimated five-year period. The costs of the Harza contract are estimated at \$3,650,000 in foreign exchange and \$2,550,000 equivalent in local currency making a total cost of \$6,200,000.

50. Additional services as required will be added by amendment to the Harza contract, and the feasibility studies will be made under separate contracts with other U. S. consultants. Harza is precluded by the terms of the draft contract from making the feasibility studies--its efforts will be confined to assisting in the (a) selection of the studies to be made, (b) drafting the scope of services, and (c) selecting the U. S. consultant to make the studies.

51. The additional services to be provided under the Harza contract and the feasibility studies to be made by other U. S. consulting firms must be identified and mutually agreed to by the GOI and AID and the AID loan funds provided for this purpose must be committed by amendment to the Harza contract or execution of new contracts with other consultants

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prior to June 30, 1968. Any portion of the loan funds provided for these services and studies which remains uncommitted on June 30, 1968 will be promptly de-obligated.

52. AID's exercise of its responsibilities for the approval of the firms, contracts, and personnel selected to provide the services to be financed by the proposed loan, and for monitoring the contractors' performance and the GOI's utilization of these services, will contribute to better institutional development in the power sector than could otherwise be expected.

#### VIII. DISBURSEMENT SCHEDULE

53. Disbursements under the Harza contract are expected to begin in FY 1967 and end in FY 1971. Disbursements for additional services, feasibility studies and training equipment will be made during the period FY 1968-71. The estimated schedule for the issuance of Letters of Commitment and for disbursements under the loan is shown below:

	<u>Letters of Commitment (\$000)</u>	<u>Disbursements (\$000)</u>
FY 1967	3,650	1,000
FY 1968	2,850	1,350
FY 1969	-----	1,700
FY 1970	-----	1,450
FY 1971	-----	<u>1,000</u>
Total	6,500	6,500

#### IX. CONDITIONS AND COVENANTS

54. AID proposes to include the following non-standard provisions in the Loan Agreement.

a. A provision authorizing AID review of GOI utilization of the management, operation and training services and cessation of assistance if AID determines that the purposes of the loan are not being fulfilled.

b. A provision specifying the portion of the loan to be utilized for a particular purpose, e.g., not to exceed \$1,400,000 to finance feasibility studies.

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c. A condition that before any feasibility study, vocational training program expenditure or further management, operation or training service is financed, AID must receive a proposal agreeable to AID setting forth the need for and a description of the study, expenditure or service.

d. In the event conditions necessary for full utilization of the loan have not been met by June 30, 1968, AID is authorized to cancel the undisbursed balance.

## CAPITAL ASSISTANCE PAPER

IRAN: MANAGEMENT AND OTHER ASSISTANCE FOR  
DEVELOPMENT OF THE ELECTRIC POWER  
INDUSTRY

## CHECK LIST OF STATUTORY CRITERIA

1. FAA Sec. 102. Precautions that have been or are being taken to assure that loan proceeds are not diverted to short-term emergency purposes (such as budgetary, balance of payments, or military purposes) or any other purpose not essential to the country's long-range economic development. -- The loan proceeds will be used only for the proposed project. Appropriate provision will be made in the loan agreement to this end.
  2. FAA Sec. 102. Information on measures taken to utilize U. S. Government excess personal property in lieu of procurement of new items. --Although it is believed that no U. S. Government excess personal property will be appropriate for this project, the usual provision providing for same will be included in the loan agreement.
  3. FAA Sec. 102. Information whether the country permits or fails to take adequate measures to prevent the damage or destruction by mob action of U. S. property. -- There have been no recent instances of damage or destruction by mob action of U. S. property in Iran and there is no reason to believe that the Government would not take adequate measures to prevent same.
  4. FAA Sec. 201 (b). Manner in which loan will promote country's economic development, emphasizing help for long-range plans and programs designed to develop economic resources and increase productive capacities. -- Covered in Section VI A.
  5. FAA Sec. 201 (b) (1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States. -- It is believed that financing on the terms proposed for the services of the American consultants and other project items to be procured in the United States is not available from other free-world sources including private sources within the United States. EXIM clearance for this loan has been obtained.
  6. FAA Sec. 201 (b) (2). Information and conclusion on activity's economic and technical soundness, including the capacity of the recipient country to repay the loan at a reasonable rate of interest. -- Covered in Sections IV, V, and VI A and C.
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7. FAA Sec. 201 (b) (3). Information and conclusion on existence of reasonable promise activity will contribute to development of economic resources or increase of productive capacities. -- Covered in Sections II, V, and VI A.
  8. FAA Sec. 201 (b) (4). Information and conclusion on activity's relationship to other development activities, and its contribution to realizable long-range objectives. -- Covered in Sections II, V and VI A.
  9. FAA Sec. 201 (b) (5). Country's self-help measures, including institution of Foreign Assistance Act investment guaranty programs. -- Covered in Sections II, IV, and V. An agreement with respect to investment guaranty programs is in effect in Iran.
  10. FAA Sec. 201 (b) (6). Information and conclusion on possible effects on U.S. economy, with special reference to areas of substantial labor surplus. -- Covered in Section VI B. No information is available concerning the effect the loan might have on areas of substantial labor surplus in the U. S.
  11. FAA Sec. 201 (b). Information and conclusion on reasonable prospects of repayment. -- Covered in Section VI C.
  12. FAA Sec. 201 (d). Information and conclusion on legality (under laws of the country and the U. S.) and reasonableness of lending and relending terms. -- The proposed lending terms would be in conformity with the laws of the United States and Iran.
  13. FAA Sec. 201 (e). Information and conclusion on availability of an application together with sufficient information and assurances to indicate reasonably that funds will be used in an economically and technically sound manner. -- Covered in Sections II, IV, V and VI A. An application was submitted for this loan initially in November, 1965 and later supplemented with more detailed information in March, 1966.
  14. FAA Sec. 201 (f). If a project, information and conclusion whether it will promote the economic development of the requesting country, taking into account the country's human and material resource requirements and the relationship between the ultimate objectives of the project and the country's overall economic development. -- Covered in Sections II, V and VI A.
  15. FAA Sec. 201 (f). If a project, information and conclusion whether it specifically provides for appropriate participation by private enterprise. -- All of the proceeds of the loan will be used to procure services and training equipment from private enterprise in the United States.
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16. FAA Sec. 202 (a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.  
-- Covered in Section VI D.
  17. FAA Sec. 601 (a). Information and conclusions whether loan will encourage efforts of the country to : (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; (f) strengthen free labor unions. -- (a) The flow of international trade will be encouraged by the transfer of American know-how and equipment to Iran; (b) private initiative and competition will be stimulated in Iran since development of the power sector will form the needed base for private industrial, commercial and agricultural activities; (c) the loan would have no known effect on the development and use of cooperatives, credit unions, and savings and loan associations; (d) with respect to the power industry itself, the loan will probably encourage Government monopoly but indirectly should discourage monopolistic practices since private investment in the industrial, commercial and agricultural sectors of the economy will be encouraged by the development of the power base envisaged in this loan; (e) the technical efficiency of industry, agriculture and commerce should ultimately be improved immensely since the availability of reliable electric power will enable the adoption of modern practices where such is not possible at present; (f) the loan would have no known effect on the strengthening of free labor unions.
  18. FAA Sec. 601 (b). Information and conclusion on how the loan will encourage U. S. private trade and investment abroad, and how it will encourage private U. S. participation in foreign assistance programs (including use of private trade channels and the services of U. S. private enterprise). -- All of the services and equipment financed under the loan will be procured through private trade channels from private enterprise in the United States.
  19. FAA Sec. 601 (d). Conclusion and supporting information on compliance with the Congressional policy that engineering and professional services of U. S. firms and their affiliates are to be used in connection with capital projects to the maximum extent consistent with the national interest. -- The engineering and professional services to be financed under the loan will be furnished by U. S. firms.
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20. FAA Sec. 602. Information and conclusions whether loan will permit American small business to participate equitably in the furnishing of goods and services financed by it. -- Appropriate provision will be included in the implementation documents for participation by American small business in furnishing the training equipment to be financed out of the loan. The professional services of American consulting firms have been and will be obtained in accordance with A.I.D. requirements.
21. FAA Sec. 604 (a); App. Sec. 108. Compliance with restriction of commodity procurement to U. S. except as otherwise determined by the President and subject to statutory reporting requirements. -- All of the services and equipment to be financed out of the loan will be procured in the United States.
22. FAA Sec. 604 (b). Compliance with bulk commodity procurement restriction to prices no higher than the market price prevailing in the U. S. at time of purchase. -- Appropriate provision will be included in the loan agreement with respect to this restriction.
23. FAA Sec. 604 (d). Compliance with requirement that marine insurance be purchased on commodities if the participating country discriminates, and that insurance be placed in the U. S. -- An appropriate provision will be included in the loan agreement with respect to this requirement.
24. FAA Sec. 611 (a) (1). Information and conclusion on availability of engineering, financial, and other plans necessary to carry out the assistance and of a reasonably firm estimate of the cost of the assistance to the United States. -- Covered in Sections II, V, VI A and VII.
25. FAA Sec. 611 (a) (2). Necessary legislative action required within recipient country and basis for reasonable anticipation such action will be completed in time to permit orderly accomplishment of purposes of loan. -- No specific legislative action within Iran is believed necessary for accomplishment of the purposes of this loan. However, the Government agencies involved have drafted and are revising legislation that will provide the legal framework within which development of the power industry will take place.
26. FAA Sec. 611 (b); App. Sec. 101. If water or water-related land resource construction project or program, information and conclusion on a benefit-cost computation. -- Not applicable.

27. FAA Sec. 611 (c). Compliance with requirement that contracts for construction be let on competitive basis to maximum extent practicable. -- Not applicable.
  28. FAA Sec. 636 (h) and 612 (b). Appropriate steps that have been taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the U. S. are utilized to meet the cost of contractual and other services. -- The Government of Iran will furnish all of the local currencies needed to meet the local costs of the project. In addition, a large investment of local currency has already been made by the Government in the power sector. See Sections VI A and VII.
  29. FAA Sec. 619. Compliance with requirement that assistance to newly independent countries be furnished through multilateral organizations or plans to maximum extent appropriate. -- Not applicable.
  30. FAA Sec. 620 (a); App. Sec. 107 (a). Compliance with prohibitions against assistance to Cuba and any country (a) which furnishes assistance to Cuba or failed to take appropriate steps by February 14, 1964, to prevent ships or aircraft under its registry from carrying equipment, materials, or supplies from or to Cuba; or (b) which sells, furnishes, or permits any ships under its registry from carrying items of primary strategic significance, or items of economic assistance. -- Iran is not in violation of either of these prohibitions.
  31. FAA Sec. 620 (b). If assistance to the government of a country, existence of determination it is not controlled by the international Communist movement. -- Iran is not controlled by the international Communist movement.
  32. FAA Sec. 620 (c). If assistance to the government of a country, existence of indebtedness to a U. S. citizen for goods or services furnished or ordered where such citizen has exhausted available legal remedies or where the debt is not denied or contested by such government or the indebtedness arises under an unconditional guaranty of payment given by such government. -- No such indebtedness is known to exist.
  33. FAA Sec. 620 (d). If assistance for any productive enterprise which will compete with U. S. enterprise, existence of agreement by the recipient country to prevent export to the U. S. of more than 20% of the enterprise's annual production during the life of the loan. -- No competition with U. S. enterprise is contemplated.
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34. FAA Sec. 620 (e) (1). If assistance to the government of a country, extent to which it (including government agencies or subdivisions) has, after January 1, 1962, taken steps to repudiate or nullify contracts or taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U. S. citizens or entities beneficially owned by them without taking appropriate steps to discharge its obligations. -- There is one known case which may come under the provisions of this statute. However, it is believed that the Government of Iran is presently taking appropriate steps to discharge its obligations.
35. FAA Sec. 620 (f); App. Sec. 109. Compliance with prohibitions against assistance to any Communist country. -- Iran is not a Communist country.
36. FAA Sec. 620 (g). Compliance with prohibition against use of assistance to compensate owners for expropriated or nationalized property. -- Proceeds of the loan will be used only for the specific purposes outlined in the Capital Assistance Paper. Appropriate provision will be included in the loan agreement to this end.
37. FAA Sec. 620(h). Compliance with regulations and procedures adopted to insure against use of assistance in a manner which, contrary to the best interests of the U.S., promotes or assists the foreign aid projects or activities of the Communist-bloc countries. Appropriate provision will be included in the loan agreement to meet the requirements of this statute.
38. FAA Sec. 620 (i). Existence of determination that the country is engaging in or preparing for aggressive military efforts. -- No determination has been made or is anticipated that Iran is engaging in or is preparing for aggressive military efforts.
39. FAA Sec. 620 (k). If construction of productive enterprise where aggregate value of assistance to be furnished by U. S. will exceed \$100 million, identification of statutory authority. -- Not applicable.
40. FAA Sec. 620 (l). Compliance with prohibition against assistance after December 31, 1966, for the government of a country which fails to institute investment guaranty program. -- Not applicable.
41. FAA Sec. 620 (n); App. Sec. 107 (b); App. Sec. 117. Compliance with prohibitions against assistance to countries which traffic or permit trafficking with North Vietnam. -- Iran is not known presently to be in violation of these prohibitions.

42. FAA Sec. 620 (o). If country has seized, or imposed any penalty or sanction against, any U. S. fishing vessel on account of its fishing activities in international waters, information on the consideration which has been given to excluding the country from assistance. -- Not applicable.
43. App. (Sec. unnumbered). Use of funds to carry out FAA Sec. 205, which pertains to IDA. -- Not applicable.
44. App. Sec. 102. Compliance with requirement that payments in excess of \$25,000 for architectural and engineering services on any one project be reported to Congress. -- The requirements of this statute will be met through standard A.I.D. procedures.
45. App. Sec. 104. Compliance with bar against funds to pay pensions, etc., for military personnel. -- The proceeds of the loan will be used only for the specific purposes outlined in the Capital Assistance Paper. Appropriate provision will be included in the loan agreement to this end.
46. App. Sec. 106. If country attempts to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U. S. citizens generally, application which will be made in negotiations of contrary principles as expressed by Congress. -- Iran does not attempt to create distinctions because of their race or religion among Americans.
47. App. Sec. 111. Compliance with existing requirements for security clearance of personnel. -- Appropriate provision will be included in the implementing documents for security clearance of personnel in accordance with existing requirements.
48. App. Sec. 112. Compliance with requirement for approval of contractors and contract terms for capital projects. -- Appropriate provision will be included in the loan agreement to meet the requirements of this statute.
49. App. Sec. 114. Compliance with bar against use of funds to pay assessments, etc., of U. N. member. -- Proceeds of the loan will be used only for the specific purposes outlined. Appropriate provision will be included in the loan agreement to this end.

50. App. Sec. 115. Compliance with regulations on employment of U. S. and local personnel for funds obligated after April 30, 1964 (Regulation 7). -- Not applicable.
51. App. Sec. 401. Compliance with bar against use of funds for publicity or propaganda purposes within U. S. not heretofore authorized by Congress. -- Proceeds of the loan will be used only for the specific purposes outlined. Appropriate provision will be included in the loan agreement to this end.

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SCOPE OF WORK OF THE PROPOSED CONTRACT FOR MANAGEMENT, OPERATIONS AND TRAINING SERVICES

1. The work to be performed by the consultants has the objective of providing to the Ministry of Water and Power and to the Regional Utility Companies teams of experts to assist in the setting up of the said Companies, participate in the training of their staffs and, in the initial stages, actively participate through their Iranian counterparts in the actual day-to-day operations of each Company. It is anticipated that the services of the consultant will be required for a period of approximately five years during which time, the experts assigned to the project will assist the Ministry and the Regional Utility Companies in:

- (a) Setting up a central organization within the Ministry to give to each Regional Utility Company such management, technical, operational and accounting assistance of which it may be in need from time to time.
- (b) Organizing each Regional Utility Company.
- (c) Formulating general policies and methods as to utility operations so as to standardize, in so far as is possible, the procedures to be followed by all the Regional Companies.
- (d) Instituting in all Regional Companies a uniform system of accounting, store keeping and purchasing.
- (e) Preparing a code for job evaluation and required position qualifications.
- (f) Preparing and putting into effect methods for the selection of personnel and the grading thereof.
- (g) Preparing specifications and estimates of projects of a secondary nature not contemplated in the Master Electrification plans.
- (h) Evaluating bids received on all purchases of major equipment and materials by the Regional Utility Companies.
- (i) Formulating policies to be followed regarding public and customer relations.

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- (j) Preparing annual operating and construction budgets in accordance with a uniform and approved standard.
- (k) Evaluating the present and future economic and physical needs, facilities and procedure for adequate communication, including tele-metering, to accomplish economic loading of generating capacity and to provide adequate facilities for load dispatching in order to provide continuity of service required by the respective needs of customers.

The evaluation of customer needs shall also include voltage control and frequency control.

- (l) Developing a training program for executives, accountants, power plant operators, line men, electricians and other personnel in all phases of management and operations.
- (m) Developing safety practices and programs.

2. The consultant's team attached to the Ministry, in addition to assisting in the Ministry's day-to-day duties will coordinate the work of the teams attached to the Regional Companies and, whenever necessary, will visit these to expedite and assist in particular phases of the work. The consultant's staff will be under the general direction of the Project Manager who will also be the consultant's representative before the Ministry. Each team attached to a Regional Company will be headed by a Chief under the general supervision of the Project Manager.

3. The duties of the consultant's team as defined under Paragraph 1 shall not be limited in scope but must be interpreted as liberally as the number and class of experts employed will permit.

Particularly, it must be stressed that the element of instruction should enter into all phases of the consultant's work with the end in view that within the time allotted to the project, Iranian staff must be trained to take over from the consultant's experts as soon as is feasible. The scope and nature of the consultant's duties may be reviewed annually or as found necessary by the Ministry and possible modifications agreed upon provided that such modifications do not create a financial hardship for the consultant.

LOAN AUTHORIZATION

Provided from Development Loan Funds

Iran: Management and Other Assistance for  
Development of Electric Power Industry

Pursuant to the authority vested in the Assistant Administrator, Bureau for Near East and South Asia, of the Agency for International Development, (hereinafter called A.I.D.), by the Foreign Assistance Act of 1961, as amended, and the Delegations of Authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter II, Title I, The Development Loan Funds, to the Imperial Government of Iran, acting through the Plan Organization, of not to exceed six million five hundred thousand dollars (\$6,500,000) to assist in financing the foreign exchange costs of the services required to establish and develop management, operations and training skills needed in the development of the electric power industry in Iran, the provision of feasibility and other studies that will be needed as the development program progresses, and the provision of equipment needed for the training of Iranian personnel in the operation and maintenance of modern generation, transmission and distribution facilities, this loan to be subject to the following terms and conditions:

1. Interest Rate and Terms of Repayment

Interest on the loan shall be three and one-half per cent ( $3\frac{1}{2}\%$ ) per annum on the disbursed balance of the loan. The loan shall be repaid within twenty-five (25) years from the date of the first disbursement thereunder, including a grace period of not to exceed five (5) years.

2. Currency of Repayment

Provision shall be made for repayment of the loan and payment of interest in United States Dollars.

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3. Other Terms and Conditions

(a) Equipment, materials and services financed under the loan shall be procured from the United States.

(b) This loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

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Assistant Administrator  
Bureau for Near East  
and South Asia

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Date

## PROJECT LOAN - STANDARD PROVISIONS ANNEX

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STANDARD PROVISIONS ANNEX

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(NESA)

ARTICLE 100. Covenants Concerning Procurement.

SECTION 100.1. Procurement Source and Origin. Except as A.I.D.

may otherwise agree in writing, all Eligible Items, including transportation services and marine insurance, shall have both their source and origin in the United States. Transportation services shall be deemed to have their source and origin in the United States if procured from a United States flag carrier. Marine insurance shall be deemed to have its source and origin in the United States if issued in the United States by a company authorized to do a marine insurance business in any state of the United States. All other goods and services, except transportation services, obtained for the Project shall have their source and origin in the Borrower Country or countries included in Code 899 of the A.I.D. Geographic Code Book as in effect at the time such goods or services are procured. All Eligible Items shall be transported to the Borrower Country on carriers of the Borrower Country or countries included in the said Code 899 as in effect at the time such transportation is procured. A.I.D. may issue binding interpretations of this Section 100.1 from time to time.

NESA Std. Prov. Annex May 12, 1966

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SECTION 100.2 Price. All Eligible Items shall be procured on a fair competitive basis. No more than reasonable prices shall be paid for any Eligible Item. Reasonable prices shall normally approximate the lowest competitive price for the Eligible Item procured, operating costs, quality, time and cost of delivery, terms of payment and other factors considered. Prices for Eligible Items which are procured in bulk within the United States shall not exceed the market price prevailing in the United States at the time of purchase. Prices for Eligible Items which are procured in bulk outside the United States, if such procurement is authorized by A.I.D., must be lower than such United States market price. All prices shall be adjusted for comparison purposes for differences in the cost of transportation to destination, quality and terms of payment. The provisions of this Section 100.2, other than the requirement that the price must be reasonable, shall not apply to architectural, engineering, management or such other professional services as A.I.D. may specify in writing.

SECTION 100.3. Date of Procurement. No goods or services may be financed hereunder which arise out of orders or contracts firmly placed or entered into prior to the Eligibility Date or out of orders or contracts which provide for a shipping date later than the terminal date for disbursements provided in Section 4.3.

SECTION 100.4. Small Business Notification. In order that United States small business shall have the opportunity to participate in furnishing Eligible Items, Borrower, at such time as A.I.D. may specify prior to ordering or contracting for any Eligible Item estimated to cost more than the equivalent of Five Thousand United States dollars (\$5,000), shall cause to be received by A.I.D. such information concerning Eligible Items as A.I.D. may require.

SECTION 100.5. Insurance on Goods in Transit. Except as A.I.D. may otherwise agree in writing Borrower shall insure, or cause to be insured, all goods financed under the Loan against risks incident to their transit to the point of their use in the Project. Such insurance shall be issued upon terms and conditions consistent with sound commercial practice, shall insure the full value of the goods, and shall be payable in United States dollars.

SECTION 100.6. Discrimination in Marine Insurance. If in connection with the placement of marine insurance on shipments financed under United States legislation authorizing assistance to other nations, the Borrower Country, by statute, decree, rule or regulation, favors any insurance company of any country over any marine insurance company authorized to do business in any state of the United States, goods financed hereunder shall during the

continuance of such discrimination be so insured in the United States with a company or companies authorized to do a marine insurance business in any state of the United States.

SECTION 100.7. Employment of Contract Personnel. The employment of personnel to perform services under contracts financed hereunder, in whole or in part, shall be subject to all applicable United States legislation and such requirements, including security clearances and limitations on the employment of third country nationals, as A.I.D. may from time to time promulgate or specify and, except as A.I.D. may otherwise direct, all such contracts shall include provisions necessary to implement such legislation and requirements.

SECTION 100.8. United States Government Owned Property. To the maximum extent consistent with the requirements of the Project, Borrower shall utilize such United States Government owned property of appropriate quality as A.I.D. after consultation with Borrower may determine is available for the Project at reasonable cost and within a reasonable time.

ARTICLE 101. Covenants and Warranties Concerning the Project.

SECTION 101.1. Execution, Completion and Operation of the Project.

Borrower shall:

(a) Carry out and complete the Project, with due diligence and efficiency, providing any additional resources which may be required for such purposes. Borrower shall complete and carry out the Project in conformity with sound engineering, construction, and financial practices and in conformity with all engineering, construction or procurement arrangements, contracts, plans, specifications and other documents or submissions approved by A.I.D. Borrower shall obtain A.I.D. concurrence prior to any material modification or cancellation of any such arrangements, contracts, plans, specifications, or other documents or submissions.

(b) Adequately maintain, repair and operate, in accordance with sound practices, all Eligible Items and any construction or facility resulting from their use ("Project Facilities").

SECTION 101.2. Utilization of Eligible Items. All Eligible Items shall be used exclusively for the Project. This restriction shall apply only until such time as such goods can no longer be usefully employed for the Project or the Project Facilities, provided that no goods.

financed hereunder shall be exported from the Borrower Country without the prior approval of A.I.D. and provided further that no Eligible Item shall at any time be used to promote or assist any project or activity associated with or financed by any country, other than the Borrower Country, not included in Code 899 of the A.I.D. Geographic Code Book as in effect at the time of such projected use except with the prior written consent of A.I.D.

SECTION 101.3. Information and Marking. Borrower shall cooperate with the United States Government in its efforts to disseminate information concerning the Loan and the Project and shall comply with such reasonable instructions with respect thereto or with respect to the marking of goods financed under the Loan or the identification of any Project job site as A.I.D. may issue from time to time.

SECTION 101.4. Notice of Material Developments. Borrower represents and warrants that it has disclosed to A.I.D. all circumstances which may materially affect the Project or the discharge of Borrower's obligations under the Agreement and covenants that it will inform A.I.D. of any conditions which may constitute a default hereunder or which interfere, or which it is reasonable to believe may interfere, with the Project or the discharge of any of Borrower's said obligations.

SECTION 101.5. Books and Records. Borrower shall maintain or cause to be maintained books of account, in accordance with accounting principles generally accepted as sound in the Borrower Country, and records adequate to identify Eligible Items and to disclose the use thereof in the Project. Such books and records shall be maintained and may be audited for such period and in such manner as A.I.D. may require.

SECTION 101.6. Reports. Borrower shall furnish A.I.D. with such information and reports relating to the Project, Eligible Items, and the Loan as A.I.D. may reasonably request.

SECTION 101.7. Inspections. The authorized representatives of A.I.D. shall have the right at all reasonable times, whether prior to completion of the Project or subsequent thereto, to inspect the Project and the Project Facilities, the utilization of all Eligible Items, the books and records referred to in Section 101.5, and any other documents, correspondence, memoranda or records in Borrower's possession or control relating to the Loan or to the Project. Borrower shall cooperate with A.I.D. to facilitate such inspections and shall afford a reasonable opportunity for such representatives of A.I.D. to visit any part of the Borrower Country for any purpose related to the Loan.

ARTICLE 102. General Covenants.

SECTION 102.1. Non-Taxation of Loan Agreement. This Agreement and the Loan shall be free from, and the Principal and Interest shall be paid to A.I.D. without deduction for and free from, any taxation or fees imposed under any laws in effect within the Borrower Country or any such taxes or fees so imposed or payable shall be borne by Borrower.

SECTION 102.2 Commissions, Fees and Other Payments. Borrower warrants and covenants that in connection with obtaining the Loan or taking any action under or with respect to this Agreement it has not paid and will not pay or agree to pay nor to the best of its knowledge has there been paid nor will there be paid or agreed to be paid by any other person or entity, commissions, fees or other payments of any kind, except as regular compensation to Borrower's full time officers and employees or as compensation for bona fide professional, technical or other comparable services. Borrower shall promptly report to A.I.D. any payment or agreement to pay for such bona fide professional, technical or comparable services to which it is a party or of which it has knowledge (indicating whether such payment has been made or is to be made on a contingent basis), and if the amount of any such payment is deemed unreasonable by A.I.D., Borrower shall cause a reduction satisfactory to A.I.D. to be made therein.

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A.I.D. from time to time may issue binding instructions concerning the eligibility for financing hereunder of commissions, including brokerage commissions and commissions paid to sales agents of suppliers, and allowances to purchasing agents or importers. Borrower agrees to comply with such instructions, to promptly report to A.I.D. any payment or allowance, or agreement to pay or permit any commissions or allowances, covered by such instructions of which it has knowledge and to reimburse A.I.D. on request, in the amount of any payment or allowance made or permitted contrary to such instructions; provided, however, that this paragraph shall apply only to commissions or allowances arising from contracts or orders made or placed after the receipt by Borrower of notice of such instructions.

SECTION 102.3. Renegotiation of Terms. Borrower agrees that, at any time or times when it is requested to do so by A.I.D., but not sooner than six (6) months prior to the date the first repayment of Principal is due, it will negotiate with A.I.D. with respect to acceleration of the repayment of Principal. It is agreed that Borrower and A.I.D. shall mutually determine to what extent repayment should be accelerated on the basis of one or more of the following criteria:

- (a) Significant improvement in the internal economic and financial situation of the Borrower Country;

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- (b) Favorable trends in the balance of payments and foreign exchange holdings of the Borrower Country;
- (c) Ability of the Borrower Country to make future repayments of A.I.D. loans without interfering with the service of debts owing to any United States Government agency or any international organization of which the United States is a member.

ARTICLE 103. Remedies of A.I.D.

SECTION 103.1. Events of Default; Acceleration. If any one or more of the following events ("Event of Default") shall occur:

- (a) Borrower shall fail to pay in full any interest or installment of Principal when due;
- (b) Borrower shall fail to comply with any other provision contained in the Agreement or this Annex; or
- (c) Any representation or warranty made by or on behalf of Borrower with respect to obtaining the Loan or made or required to be made hereunder is incorrect in any material respect;

then, A.I.D., at its option, may declare all or any part of the unpaid Principal to be due and payable immediately and upon any such declaration, unless the default is cured within sixty (60) days thereafter, such Principal and all interest accrued thereon shall become due and payable immediately upon the expiration of said sixty (60) day period.

SECTION 103.2 Termination of Disbursements; Transfer of Goods to A.I.D. In the event that at any time:

- (a) An Event of Default has occurred;
- (b) An event occurs which makes it improbable that the purposes of the Loan will be attained or that Borrower will be able to perform its obligations hereunder;
- (c) Any disbursement would be in violation of the legislation governing A.I.D.; or

(d) A default shall have occurred under any other agreement between Borrower or any of its agencies and the United States of any of its agencies;

then, A.I.D., at its option, may (i) decline to issue further letters of commitment, (ii) suspend or cancel outstanding letters of commitment to the extent that they have not been utilized through the issuance of irrevocable letters of credit or through bank payments made other than under irrevocable letters of credit, giving notice to Borrower promptly thereafter, (iii) decline to make disbursements other than under letters of commitment; and (iv) thereafter cancel any undisbursed balance of the loan

SECTION 103.3 Refunds. If A.I.D. determines that any disbursement is not supported by valid documentation in accordance with the terms of this Agreement, or is not made or used accordance with the terms of this Agreement, or was at the time of disbursement in violation of the legislation governing A.I.D., A.I.D., at its option, may, notwithstanding the availability of any other remedy provided for under this Agreement or the exercise of the remedy provided for in Section 103.2, require Borrower to pay to A.I.D. within ninety (90) days after receipt of a request therefor, an amount not

to exceed the amount of such disbursements, provided that such request by A.I.D. shall be made not later than five (5) years after the date of the final disbursement hereunder. Except as A.I.D. may otherwise agree, any such refund received by A.I.D. shall be applied to installments of Principal in the inverse order of their maturity.

SECTION 103.4. Waivers of Default. No delay in exercising or omission to exercise any right, power or remedy accruing to A.I.D. under this Agreement shall be construed as a waiver of any such right, power, or remedy.

SECTION 103.5. Expenses of Collection. All reasonable costs incurred by A.I.D. (other than salaries of its staff) in connection with the collection of any refund, or, after an Event of Default has occurred, in connection with the collection of any amounts due under this Agreement may be charged to Borrower and shall be reimbursed to A.I.D. in such manner as A.I.D. may specify.

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ANNEX IV  
AID-DLC/P-416

A.I.D. Loan No.

LOAN AGREEMENT

(Iran: Management and Other Assistance for  
Development of Electric Power Industry)

BETWEEN THE

IMPERIAL GOVERNMENT OF IRAN

AND THE

UNITED STATES OF AMERICA

Date:

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AGREEMENT made and entered into as of the \_\_\_\_\_ day of \_\_\_\_\_ 1953, between the IMPERIAL GOVERNMENT OF IRAN ("Borrower"), acting through the PLAN ORGANIZATION, and the UNITED STATES OF AMERICA, acting through the Agency for International Development ("A.I.D.

ARTICLE I. THE LOAN

SECTION 1.1. The Loan Subject to the terms and conditions of this Agreement, A.I.D. agrees to lend to Borrower pursuant to the Foreign Assistance Act of 1951, as amended, and Borrower agrees to borrow from A.I.D. up to Six Million Five Hundred Thousand United States Dollars (\$6,500,000) (the "Loan") for the United States Dollar costs of goods and services required for the Project as defined in Section 1.2. The funds disbursed hereunder are herein referred to as "Principal." Goods and services financed hereunder are herein referred to as "Eligible Items." References herein to the "Borrower Country" are to Iran.

SECTION 1.2. The Project As used in this Agreement, the term "Project" shall mean the provision of management, operations, and training services and feasibility studies needed for development of the electric power sector of Borrower Country.

ARTICLE II. TERMS OF REPAYMENT AND INTEREST

SECTION 2.1. Interest Borrower shall pay interest semi-annually to A.I.D. in United States Dollars on the unrepaid Principal and

on any interest due and unpaid, computed on the basis of a 365 day year and at the rates hereinafter stated. The first such payment shall be due and payable six (6) months after the first disbursement hereunder or on such earlier date as A.I.D. may specify. Interest shall accrue from the dates of the respective disbursements at the rate of three and one-half percent (3 1/2%) per annum. Disbursements shall be deemed to occur on the dates on which payments by A.I.D. are made to Borrower or to its designee or to a banking institution pursuant to a letter of commitment.

SECTION 2.2. Principal Borrower shall repay the Principal to A.I.D. in United States Dollars in semi-annual installments in accordance with the terms of this Agreement and an amortization schedule to be provided Borrower by A.I.D. after all disbursements have been made. Such amortization schedule shall provide for repayment of the Principal within twenty-five (25) years of the first disbursement hereunder in forty-one (41) approximately equal semi-annual payments of Principal and interest, the first installment to be payable four and one-half (4 1/2) years after the date on which the first interest payment is due.

SECTION 2.3. Application and Place of Payment All payments shall be applied first to accrued interest and then to Principal. Except as A.I.D. may otherwise specify in writing, payments shall be made to the

Controller, USAID Mission, Tehran, Iran, and shall be deemed to have been made when received by A.I.D. at such address.

SECTION 2.4. Prepayment Borrower shall have the right to prepay all or any part of the Principal, without penalty, on any date on which interest is due. Except as A.I.D. may otherwise agree in writing, all prepayments shall be applied first to accrued interest and then to the remaining installments of Principal in the inverse order of their maturity.

### ARTICLE III. CONDITIONS PRECEDENT

SECTION 3.1. Conditions Precedent to Financing Prior to the issuance of the first letter of commitment and to any disbursement hereunder, Borrower shall, except as A.I.D. may otherwise agree in writing, furnish A.I.D. in form and substance satisfactory to A.I.D.:

- (a) An opinion of the Minister of Justice of the Imperial Government of Iran or of other counsel satisfactory to A.I.D., that this Agreement has been duly authorized or ratified by and executed on behalf of Borrower and constitutes a valid and legally binding obligation of Borrower in accordance with its terms and that the person signing the Agreement on behalf of the Borrower has the authority to act as the representative of the Borrower in all matters

- pertaining to the Loan and this Agreement, including the authority to designate other representatives of the Borrower pursuant to Section 5.3;
- (b) The name of the person or persons who will act as the additional representative or representatives of the Borrower pursuant to Section 5.3, together with evidence of his or their authority and a specimen signature of each such person certified as to its authenticity;
  - (c) Evidence that a contract for management, operation and training services for the project satisfactory to AID has been entered into by the Ministry of Water and Power of Borrower (MWP) and a consulting engineering firm satisfactory to AID;
  - (d) Evidence of the availability of funds, other than the loan, necessary for the provision of the management, operation and training services;
  - (e) Such additional plans, documents or other submissions as AID may request.

SECTION 3.2. Conditions Precedent to Financing Other Than Engineering Services. Prior to the issuance of letters of commitment and to any disbursements thereunder for (a) any service to be provided by a consulting engineering firm in addition to those to be provided at a total cost of Three Million Six Hundred and Fifty Thousand Dollars (\$3,650,000), or (b) any feasibility study, or (c) any proposed

expenditure on the vocational training program, Borrower shall, except as A.I.D. may otherwise agree in writing, furnish A.I.D. in form and substance satisfactory to A.I.D.:

- (a) A proposal agreeable to A.I.D. setting forth in reasonable detail the need for and a description of the additional service, feasibility study, or vocational training expenditure for which financing is desired, the proposed arrangements and plans for such and an estimate of the United States Dollar and Iranian Rial costs thereof;
- (b) Evidence that a contract or other arrangement satisfactory to A.I.D. for any additional service, feasibility study or vocational training expenditure has been entered into by MWP with a firm acceptable to A.I.D.;
- (c) Evidence of the availability of funds, other than the Loan, necessary for any additional service, feasibility study or vocational training expenditure.
- (d) Such additional plans, documents or other submissions in respect of the particular additional service, feasibility study or vocational training expenditure as A.I.D. may request.

SECTION 3.3. Terminal Dates for Fulfillment of Conditions Precedent. If the conditions established by Section 3.1 have not been satisfied within six (6) months of the date of this Agreement or such later date as A.I.D. may specify in writing, A.I.D. at any time thereafter may at its option terminate this Agreement by written notice to Borrower. Forthwith upon receipt of such notice, Borrower shall repay any unrepaid Principal and any accrued interest, whereupon all obligations of Borrower and A.I.D. under this Agreement shall cease.

If the conditions precedent necessary for full utilization of the Loan as specified in Section 3.2 shall not have been met by June 30, 1968, A.I.D. at its option may cancel that part of the undischarged balance of the Loan not allocated to financing of goods and services for which all conditions precedent have been met.

#### ARTICLE IV. DISBURSEMENTS

SECTION 4.1 Requests for Letters of Commitment. To obtain disbursements, Borrower may from time to time request A.I.D. to issue letters of commitment to one or more banking institutions in the United States designated by Borrower and satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made, through letters of credit or otherwise, to Borrower or any designee of Borrower, pursuant to such documentation requirements as A.I.D. may prescribe. Banking charges incurred in connection with letters of commitment and disbursements shall be borne by the Borrower and may be financed hereunder.

SECTION 4.2. Other Forms of Disbursement. Disbursements may also be made by such other means as Borrower and A.I.D. may agree to in writing.

SECTION 4.3. Terminal Dates for Requests for Letters of Commitment and for Disbursements. Except as A.I.D. may otherwise agree in writing, no letters of commitment shall be issued in response to requests received by A.I.D. after December 31, 1968 and no disbursement shall be made against documentation received by A.I.D. or the banks described in Section 4.1 after December 31, 1971.

ARTICLE V. UTILIZATION OF LOAN PROCEEDS

SECTION 5.1. Utilization of Loan Proceeds. Except as A.I.D. may otherwise agree in writing, the proceeds of the Loan shall be utilized as follows:

- (a) Not to exceed Three Million Six Hundred Fifty Thousand Dollars (\$3,650,000) to finance services to be performed under the management, operation and training service contract referred to in Section 3.1;
- (b) Not to exceed One Million Two Hundred Thousand Dollars (\$1,200,000) to finance additional management, operation and training services;
- (c) Not to exceed One Million Four Hundred Thousand United States Dollars (\$1,400,000) to finance feasibility studies;

- (d) Not to exceed Two Hundred Fifty Thousand United States Dollars (\$250,000) to finance equipment for a vocational training program.

ARTICLE VI. MISCELLANEOUS

SECTION 6.1. Eligibility Date. As used in this Agreement, "Eligibility Date" shall mean \_\_\_\_\_, except as A.I.D. may otherwise agree in writing.

SECTION 6.2 Ocean Shipment. Borrower shall ensure that at least fifty per cent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed hereunder which shall be transported on ocean vessels shall be transported on privately owned United States flag commercial vessels to the extent such vessels are available at fair and reasonable rates for United States flag commercial vessels. No goods may be financed hereunder which are transported on any ocean vessel (a) which A.I.D., by written notice to Borrower, has designated as ineligible to carry A.I.D. financed goods or (b) which has been chartered for the carriage of A.I.D. financed goods unless such charter has been approved by A.I.D.

SECTION 6.3. Review. A.I.D. and the Borrower or either of them may from time to time and as often as either may deem desirable review progress in the development of the electric power sector of Borrower Country and the effectiveness of the utilization by Borrower of the services financed by this Loan. If A.I.D. in its sole discretion

at any time determines that the purpose of the Loan are not being fulfilled, it may at its option exercise anyone or all of the remedies set forth in Section 103.2 of this Agreement.

SECTION 6.4. Use of Representatives. For all purposes relative to this Agreement the Borrower and A.I.D. will be represented, respectively, by the individuals signing this Agreement or any persons holding or acting in the offices now held by such individuals. In addition, the Borrower shall and A.I.D. may respectively designate in writing an additional representative or representatives who shall have authority to perform all actions on behalf of their respective principals required or permitted for the implementation of the Project.

Until receipt by the Borrower or A.I.D. of written notice of revocation by the other of the authority of any of its said representatives, Borrower or A.I.D., respectively, may accept the signature of any such representative or representatives as conclusive evidence that any action effected by such instrument is duly authorized by the other.

SECTION 6.5. Communications. Any notice, request or other communication given, made, or sent by Borrower or A.I.D. pursuant to this Agreement shall be in writing and shall be deemed to have been duly delivered to the party to which it is addressed when received by such party at the following address:

To Borrower:

Mail Address:

Plan Organization  
Avenue Danesh Kadeh  
Teheran, Iran

Cable Address:

PARNAMEH  
Teheran, Iran

To A.I.D. (two copies):

Mail Address:

Agency for International Development  
Department of State  
Washington, D. C. 20523  
U. S. A.

Cable Address:

A.I.D.  
Washington, D. C.  
U. S. A.

Borrower, in addition, shall provide the U.S.A.I.D. Mission, Teheran, Iran, with a copy of all communications or documents sent to A.I.D. Other addresses may be substituted for the foregoing upon written notice.

All communications and Documents submitted to A.I.D. hereunder shall be in the English language and all technical and engineering specifications therein shall be in terms of United States standards, except as A.I.D. may otherwise agree in writing.

SECTION 6.6 Standard Provisions Annex A Standard Provisions Annex is attached to this Agreement and is hereby made a part hereof. Terms used both therein and in this Agreement shall have the same meaning in both documents. References in the Standard Provisions Annex to "the Agreement" are to this Agreement.

SECTION 6.7 Letter(s) of Implementation Without prejudice to the provisions of this Agreement, the procedures for implementing the various requirements set forth herein shall be as detailed in the Letter or Letters of Implementation which A.I.D. shall from time to time furnish to the Borrower.

UNITED STATES OF AMERICA

IMPERIAL GOVERNMENT OF IRAN

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

DRAFT

ANNEX V  
AID-DLC/P-416  
May 10, 1966

The Imperial Government of Iran  
c/o Ministry of Water and Power  
Teheran, Iran

Subject: A.I.D. Loan No.  
Management and Other Assistance  
for Development of Electric  
Power Industry  
Implementation Letter No. 1

Dear Sir:

This letter sets forth the procedures for utilizing the proceeds of the Loan made available under the subject Loan Agreement and provides information to facilitate the implementation of the project as contemplated in the Loan Agreement. Nothing in this letter and its attachments alters the scope of the Loan Agreement or the terms of the specific sections of the Loan Agreement that are referred to or explained herein. This letter and its attachments may be supplemented or modified by subsequent Implementation Letters.

I. Conditions Precedent to Disbursements - Article III

We are setting forth below information, keyed to the sections and sub-sections of Article III, which is intended to assist you in complying expeditiously with the itemized conditions.

Section 3.1 - Conditions Precedent to First Disbursements

(a) Legal Opinions

An outline of information which your counsel may use in preparing the required legal opinions is attached hereto as Attachment A.

(b) Specimen Signatures

There are three elements to this requirement relating to the persons who will have authority to act in your behalf in carrying out the various provisions of the Loan Agreement. To meet the requirements, you should submit statements in writing containing (1) the name or names of the persons who have been authorized to act in your behalf pursuant to Section 5.3 of the Loan Agreement, (2) a brief description of the legal basis for the authority of such person or persons together with certified extracts from the relevant laws and regulations, and (3) a specimen signature of each such person certified to or otherwise authenticated by a duly authorized government official. For each person so designated please submit three (3) copies of the specimen signature.

(c) Engineering Services

In order to satisfy the condition set forth in Section 3.1 (c) you should submit in final draft form a contract negotiated by you with a qualified U. S. consulting engineer providing for the requisite management, operation and training services. Our laws and regulations require that we review and approve the terms of the contract and also the firm with which you intend to contract for the services.

(d) Other Funds

You must show that satisfactory arrangements have been made to finance the costs of the management, operation and training services which will not be paid for out of the loan. To meet this

requirement, you should submit a reasonably detailed certificate, signed by your representative designated as mentioned in sub-paragraph (b) above or some other duly qualified and authorized government official, listing the costs of these services which will not be paid for out of the loan and a description of the arrangements that have been made for provision of the required funds. The certificate should also contain a statement that the person signing the certificate has reviewed the costs and arrangements described and found them to be complete and fully adequate to meet the needs of the project.

(e) No additional plans, documents or other statements are required at this time.

Section 3.2 - Conditions Precedent to Subsequent Disbursements

(a) As set forth in Section 3.2 of the Loan Agreement, A.I.D. must agree, prior to A.I.D. financing of any goods and services for the project other than the services to be provided under the contract referred to in Section 3.1 (c), to a proposal by you for the financing of each service, feasibility study or vocational training program expenditure desired. Each proposal must be in reasonable detail, and must describe, (a) the service, study or expenditure, (b) the need thereof, (c) the arrangements under which the service, study or expenditure will be carried out and, (d) an estimate of the costs of each service, study or expenditure, including both United States dollars and Iranian rial components.

(b) As earlier noted, A.I.D. must approve the contractor and the term of each contract under which the service, study or expenditure will be carried out. A final draft form of a contract for the service, study or expenditure negotiated with a qualified U. S. firm in accordance with A.I.D. requirements should be submitted with the proposal for financing in Section 3.2 (a) above.

(c) You should submit evidence of funding arrangements for each service, study or expenditure in the form of the certificate set forth in Section 3.1 (d) above.

(d) A.I.D. will notify you by other implementation letters if additional submissions are required.

### Section 3.3 - Terminal Date for Fulfillment of Conditions Precedent

As provided in Section 3.3 of the Loan Agreement, the conditions precedent set forth in Section 3.1 must be complied with prior to six (6) months after the execution of the Loan Agreement.

As also provided in Section 3.3, the conditions precedent to financing of any goods or services other than the financing of Three Million Six Hundred and Fifty Thousand Dollars for the services under the contract referred to in Section 3.1 (c) of the Loan Agreement, must be satisfied prior to June 30, 1968. In the event conditions precedent necessary for disbursement of the full amount of the loan have not been met by June 30, 1968, A.I.D. at its option may at that date or thereafter cancel that portion of the undisbursed balance of the Loan not allocated to financing of goods and services for which all conditions precedent have been met.

II. Financing Procedures and Documentation - Article IV

The procedure for requesting the issuance of letters of commitment and the actions to be taken by MWP after the letters of commitment are issued, and the documentation required by A.I.D. as a basis for disbursement of loan funds are described in Attachment B. Please note that unless A.I.D. may otherwise agree in writing, the terminal date for requesting issuance of Letters of Commitment is December 31, 1968 and the terminal date for requesting disbursements is December 31, 1971.

III. Utilization of Loan Proceeds - Article V

The loan proceeds may be used only in accordance with the specific allocations set forth in Section 5.1 of the Loan Agreement.

IV. Rules Governing Procurement

A. Eligibility Date

In accordance with Section 6.1 of the Loan Agreement, the Eligibility Date for this Project is

B. Method of Procurement

In accordance with Section 100.2, no more than reasonable prices shall be paid for any Eligible Items, and all items shall be procured on a fair competitive basis.

C. Small Business Notification

Information regarding proposed procurement of goods having a value greater than \$5,000 must be disseminated to interested United States suppliers in order that American small business shall have the opportunity to participate in furnishing Eligible Items. A.I.D.'s Office of Small Business will arrange for publication of a summary of the specifications and requests for quotations. A period of at least 45 days must elapse between the date of publication and the closing date for receipt of quotations. Attachment C gives more information on A.I.D. notice requirements to U. S. business.

D. Limitations on Shipping Facilities

In accordance with Section 100.1 items otherwise eligible for financing under the A.I.D. loan will not be so financed if shipped on transportation media owned or controlled by any of the following countries:

The Union of Soviet Socialist Republics, Albania, Bulgaria, Czechoslovakia, East Germany, Danzig, Hungary, Poland, Rumania, Estonia, Latvia, Lithuania, North Vietnam, North Korea, Tibet, China (Mainland) and other Communist-controlled areas, Outer Mongolia and Cuba.

E. Special Shipping Limitation - Section 6.2

Items otherwise eligible for financing under the A.I.D. loan will not be so financed if shipped on vessels named in Attachment D which will be periodically updated, as required.

F. Application of the 50/50 Shipping Requirement

In accordance with Section 6.2, 50% of the gross tonnage of A.I.D. - financed goods shipped on ocean vessels shall, computed separately for dry bulk carriers, dry cargo liners and tankers, be transported to Iran on privately-owned United States flag commercial vessels.

G. Eligible Source of Procurement

In accordance with Section 100.1 of the Loan Agreement, loan proceeds can be used only to finance Eligible Items, including transportation, commodities, services, and marine insurance, having their source and origin in the United States.

Goods and services financed with other than loan funds must have been procured, pursuant to Section 100.1 of the Loan Agreement, from sources included in Code 899 of the A.I.D. Geographic Code Book. The countries not included under Code 899 are listed in paragraph IV.D., "Limitations on Shipping Facilities". Thus, no items to be used on the project, regardless of sources of financing, may be purchased from countries not included under Code 899.

V. Use of Representatives - Section 6.4

We hereby designate the Director and Deputy Director, Office of Capital Development and Finance, Bureau for Near East and South Asia, as additional representatives of A.I.D. pursuant to Section 6.4 for purpose of implementing the Loan Agreement.

VI. Markings

In accordance with the provisions of Section 101.3, the Borrower shall cooperate with A.I.D. in making information concerning the loan public and shall have Eligible Items and any shipping containers suitably marked. Attachment E, discusses the marking requirement in greater detail.

VII. Reporting - Section 101.6

A. Quarterly Progress Reports

A.I.D. will require a report on the progress of the project to be submitted quarterly. The report shall be prepared and submitted by the Borrower to A.I.D. within 30 days of the close of the reporting period. The first report shall cover the period ending December 31, 1966. In the preparation of the report, the consultant shall, to the extent practicable, follow the format for the progress reports described in Attachment F.

B. Final Report

A final report following the format for final reports set out in Attachment F will be due on completion of the project and may be substituted for the last Quarterly Progress Report.

VIII. Records - Section 101.5

The records which are required under the terms of Section 101.5 insofar as they relate to eligible items and services, shall be maintained for a period of at least three (3) years after the final disbursement by A.I.D. under the loan.

IX. Commissions, Fees, and Other Payments - Section 102.2

MWP is reminded that Section 102.2 requires that any fees or commissions in connection with the project or the loan be reported to A.I.D. A.I.D. at this time is not setting forth additional requirements with respect to commissions, but may in later implementation letters.

X. Correspondence

All correspondence regarding the loan and the reports required under Section 101.6 should be addressed to the Agency for International Development, Department of State, Washington, D. C. , 20523, as specified in Section 6.5 of the Loan Agreement.

A.I.D. will be glad to discuss with your representatives any problems or questions you may have concerning the implementation of this loan, or relating to this letter and its attachments.

Sincerely yours,

Howard Parsons  
Director, USAID/Iran

Attachments

Attachments

- A. Guide for the Assistance of Counsel in Preparing Legal Opinions
- B. Disbursement of Loan Funds Letter of Commitment Procedure
- C. Borrower's Notice of U. S. Business Regarding Proposed Procurement of Goods
- D. Shipping Restrictions
- E. Marking Requirements
- F. Progress Reporting Requirements