Loan Agreement

(Electricity Services Reconstruction and Enhancement Project)

between

REPUBLIC OF IRAQ

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF IRAQ ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower the amount of two hundred million Dollars ($200,000,000), as such amount may be converted from time to time through a Currency Conversion ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section III of Schedule 2 to this Agreement.

2.03. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.

2.04. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.05. The interest rate is the Reference Rate plus the Variable Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.

2.06. The Payment Dates are May 1 and November 1 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 3 to this Agreement.

ARTICLE III — PROJECT

The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall cause SETC to carry out Part 1 of the Project and cause SEDC to carry out Parts 2 and 3 of the Project, all in accordance with the provisions of Article V of the General Conditions, Schedule 2 to this Agreement, and the Project Agreement.
ARTICLE IV — EFFECTIVENESS; TERMINATION

4.01. The Additional Conditions of Effectiveness consist of the following:

(a) the Borrower, SETC, and SEDC have executed the Subsidiary Agreement in accordance with the provisions of Section I.B.1 of Schedule 2 to this Agreement; and

(b) SEDC has adopted the Project Implementation Manual.

4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

4.03. For purposes of Section 9.05 (b) of the General Conditions, the date on which the obligations of the Borrower under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Borrower’s Representative is its minister responsible for finance.

5.02. For purposes of Section 10.01 of the General Conditions: (a) the Borrower’s address is:

Ministry of Finance
Hay Alaloom
Bab Al Mu’dham
Baghdad
Iraq; and

(b) the Borrower’s Electronic Address is:

E-mail:

s.hadeethi@mof.gov.iq

5.03. For purposes of Section 10.01 of the General Conditions: (a) the Bank’s address is:

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

(b) the Bank’s Electronic Address is:

Facsimile:

1-202-477-6391
AGREED as of the Signature Date.

REPUBLIC OF IRAQ

By

Authorized Representative

Name: Fuad Hussien
Title: Minister of Finance
Date: 7/7/2019

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative

Name: Yara S.J.
Title: Rep.
Date: 7/7/2019
SCHEDULE 1

Project Description

The objective of the Project is to improve the reliability and operational and commercial efficiency of electricity services in the selected Project areas.

The Project consists of the following parts:

Part 1. South Electricity Transmission Network Reinforcement

Increase of south electricity transmission network capacity through rehabilitation and upgrading of substations (including installation of autotransformers), reinforcement of network (including construction of circuit lines and new substations and reinforcement of existing ones), and installation of mobile substations.

Part 2. South Electricity Distribution Network Reconstruction and Reinforcement and SEDC Electricity Sales Revenue Management Improvement

(a) South Electricity Distribution Network Reconstruction and Reinforcement

Increase of south electricity distribution network capacity through rehabilitation and upgrading of substations, reinforcement of network (including construction of new substations and reinforcement of existing ones), and installation of mobile substations.

(b) SEDC Electricity Sales Revenue Management Improvement

Enhancement of SEDC’s operational and commercial efficiency through design, supply, installation, and commissioning of an integrated distribution management information system (including a commercial management system, a distribution management system, an enterprise resource planning system, and a revenue protection program).

Part 3. Institutional Capacity Strengthening and Project Implementation Support

(a) SEDC Capacity Building and Institutional Strengthening

Enhancement of institutional capacity of SEDC as a corporate entity, for improved accountability, governance, and financial sustainability, including through business reengineering, implementation of integrated distribution management information system commissioned under Part 2 (b) of the Project, deployment of experienced technical staff in operations, commercial services, finance, and corporate services, and related training and capacity building of staff.

(b) SEDC Corporate Strategic Plan and Performance Management

Definition of SEDC mission and vision, development of robust medium-term strategic plan, carrying out of training aimed at aligning behaviors to corporate values, and provision of support to SEDC leadership to align performance and targets to corporate strategy.
(c) Feasibility and Diagnostic Studies

Carrying out of studies aimed at addressing sector-performance improvements in medium to long term, particularly in relation to grid supply and reliability and options for sector development.

(d) Project Implementation Support

Provision of support to Ministry of Electricity, SEDC, and SETC in Project implementation and sector management, including through engagement of an owner’s engineer and a business support services firm.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall cause SETC to be responsible for the management (including financial management, disbursement, and procurement), implementation, and monitoring and evaluation of Part 1 of the Project, and to coordinate and collaborate with SEDC for such purpose.

2. The Borrower shall cause SEDC to be responsible for overall coordination of the Project and the management (including financial management, disbursement, and procurement), implementation, and monitoring and evaluation of Parts 2 and 3 of the Project, and to coordinate and collaborate with SETC for such purpose.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Loan available to: (a) SETC for purposes of carrying out activities under Part 1 of the Project; and (b) SEDC for purposes of carrying out activities under Parts 2 and 3 of the Project, under a subsidiary agreement between the Borrower, SETC, and SEDC, under terms and conditions approved by the Bank, which shall include the following (“Subsidiary Agreement”):

   (i) the right of SETC to withdraw the proceeds of the Loan for Part 1 of the Project on behalf of the Borrower, and proceeds so withdrawn shall be considered to be withdrawn by the Borrower;

   (ii) the right of SEDC to withdraw the proceeds of the Loan for Parts 2 and 3 of the Project on behalf of the Borrower, and proceeds so withdrawn shall be considered to be withdrawn by the Borrower;

   (iii) the provision of the proceeds of the Loan on a grant basis;

   (iv) the obligation of SETC and SEDC to carry out their respective Parts of the Project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental, and social standards and practices satisfactory to the Bank, including the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower;

   (v) the obligation of SETC and SEDC to carry out the Project in accordance with the provisions of the Safeguards Instruments, and without any right or authority, except as the Bank shall otherwise agree in writing, to assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, said instruments;
(vi) the obligation of SETC and SEDC to separately: (A) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of SETC and SEDC, as appropriate, including the operations, resources, and expenditures related to the Project; and (B) have such statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and furnish such audited financial statements to the Borrower and the Bank in accordance with the provisions of Section 5.09 (b) (ii) of the General Conditions and make them publicly available in a timely fashion and in a manner acceptable to the Bank;

(vii) the obligation of the SETC and SEDC to carry out procurement of the goods, works, and consultants' services required for their respective Parts of the Project in accordance with the provisions of the Procurement Regulations, as said provisions may be further elaborated in the Procurement Plan;

(viii) the obligation of the SETC and SEDC to maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with the indicators set forth in the Project Implementation Manual, the progress of their respective Parts of the Project and the achievement of its objective;

(ix) the obligation of the SETC and SEDC to enable the Borrower and the Bank to inspect their respective Parts of the Project, its operation, and any relevant records and documents;

(x) the obligation of the SETC and SEDC to prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing; and

(xi) the right of the Borrower to suspend or terminate the right of SETC or SEDC to use such part of the proceeds or obtain a refund of all or any part of the amount of such part of the proceeds then withdrawn, upon SETC's or SEDC's failure to perform any of its respective obligations under such agreement.

2. The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Project Implementation Manual

1. The Borrower shall: (a) ensure that the Project is carried out in accordance with the Project Implementation Manual; and (b) except as the Bank shall otherwise agree in writing, not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, said manual.
2. In the event of a conflict between the provisions of said manual and those of this Agreement, the latter shall govern.

D. Safeguards

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Safeguards Instruments, and, except as the Bank shall otherwise agree in writing, the Borrower shall not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, said instruments.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

The Borrower shall furnish to the Bank each Project Report not later than one (1) month after the end of each calendar quarter, covering the calendar quarter.

B. Semi-Annual Reviews

The Borrower shall review jointly with the Bank, SETC, and SEDC, not later than one (1) month after the submission of every second Project Report to the Bank, such report and the one preceding, and thereafter take, and cause the SETC and SEDC, jointly and severally, to take, all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of such reports and the Bank’s views on the matter.

C. Midterm Review

The Borrower shall:

(a) carry out jointly with the Bank, SETC, and SEDC, not later than thirty-six (36) months, or such other period as may be agreed with the Bank, after the Effective Date, a midterm review to assess the status of Project implementation, as measured against the indicators set forth in the Project Implementation Manual. Such review shall include an assessment of the following: (i) overall progress in implementation; (ii) results of monitoring and evaluation activities; (iii) progress on procurement and disbursement; (iv) progress on implementation of the Safeguards Instruments; (v) implementation arrangements; and (vi) the need to make any adjustments to the Project and reallocate funds to improve performance;

(b) to this end, cause SEDC, in cooperation and coordination with SETC, to prepare and furnish to the Borrower and the Bank, not later than one (1) month before such review, a report, in scope and detail satisfactory to the Bank and integrating the results of the monitoring and evaluation activities performed pursuant to Section ILA of the Schedule to the Project Agreement, on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and
(c) thereafter take, and cause SETC and SEDC to take, all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of such report and the Bank’s views on the matter.

Section III. Withdrawal of Loan Proceeds

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan to: (a) finance Eligible Expenditures; and (b) pay: (i) the Front-end Fee; and (ii) each Interest Rate Cap or Interest Rate Collar premium; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, non-consulting services, consulting services, Training, and Operating Costs for Part 1 of the Project</td>
<td>94,750,000</td>
<td>100</td>
</tr>
<tr>
<td>(2) Goods, works, non-consulting services, consulting services (including for audits), Training, and Operating Costs for Parts 2 and 3 of the Project</td>
<td>104,750,000</td>
<td>100</td>
</tr>
<tr>
<td>(3) Front-end Fee</td>
<td>500,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(4) Interest Rate Cap or Interest Rate Collar premium</td>
<td>0</td>
<td>Amount due pursuant to Section 4.05 (c) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>$200,000,000</td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed $35,000,000 for Category (1), and up to an aggregate amount not to exceed $40,000,000 for Category (2), may be made for payments made prior to this date but on or after July 1, 2018, for Eligible Expenditures under said Categories.

2. The Closing Date is June 30, 2024.
SCHEDULE 3

Commitment-Linked Amortization Repayment Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share").

**Level Principal Repayments**

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each November 1 and May 1</td>
<td></td>
</tr>
<tr>
<td>Beginning November 1, 2024</td>
<td></td>
</tr>
<tr>
<td>Through November 1, 2032</td>
<td>5.56%</td>
</tr>
<tr>
<td>On May 1, 2033</td>
<td>5.48%</td>
</tr>
</tbody>
</table>
APPENDIX

Definitions

1. “Affected Person” means a person who, on account of implementation of the Project, has experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and “Affected Persons” means, collectively, all such persons.

2. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

3. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.

4. “Coordinating Committee” means the committee responsible for strategic oversight, guidance, and overall coordination of activities under the Project, or a successor thereto.

5. “Environmental and Social Management Framework” means SEDC’s framework, dated October 2018 and agreed with the Bank, setting forth mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, and establishment and maintenance of a grievance redress mechanism, to eliminate any adverse environmental and social impacts of the Project, offset them, or reduce them to acceptable levels, or enhance positive impacts, and guidelines and procedures for the preparation of Environmental and Social Management Plans (as hereinafter defined), as the same may be modified from time to time with the prior written agreement of the Bank, and such term includes any annexes or schedules to such framework.

6. “Environmental and Social Management Plan” means SEDC’s plan, to be prepared in accordance with the provisions of the Environmental and Social Management Framework (as hereinafter defined) and agreed with the Bank, setting out mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, to eliminate any adverse environmental and social impacts of specific activities under the Project, offset them, or reduce them to acceptable levels, or enhance positive impacts, as the same may be modified from time to time with the prior written agreement of the Bank, and such term includes any annexes or schedules to such plan.


8. “Involuntary Resettlement” means the following caused on account of Project implementation: (a) the involuntary taking of land, resulting in: (i) relocation or loss of
shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not the affected person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihood of the affected person.

9. “Operating Costs” means the incremental operating costs of the Project, based on the annual work plans and budgets referred to in Section I.C of the Schedule to the Project Agreement as approved by the Bank, and incurred by the Borrower, SEDC, or SETC for purposes of Project management, implementation, and monitoring and evaluation, on account of utilities and supplies, bank charges, communications, vehicle operation, maintenance, and insurance, office space rental, building and equipment maintenance, public awareness-related media expenses, domestic and international travel and subsistence, and salaries of contractual and temporary staff, but excluding salaries and fees, honoraria, bonuses, and any other salary supplements of members of the Borrower’s civil service.


11. “Project Implementation Manual” means the SEDC’s manual, to be agreed with the Bank and setting out implementation, organizational, administrative, monitoring and evaluation (including performance indicators and related targets), financial management, disbursement, and procurement arrangements for purposes of Project implementation, as the same may be modified from time to time with the prior written agreement of the Bank, and such term includes any annexes or schedules to such manual.

12. “Project Management Teams” means, collectively, the SEDC Project Management Team (as hereinafter defined) and the SETC Project Management Team (as hereinafter defined).

13. “Resettlement Action Plan” means SEDC’s plan, to be prepared in accordance with the provisions of the Resettlement Policy Framework (as hereinafter defined) and agreed with the Bank, setting forth arrangements pertaining to land acquisition and the compensation, resettlement, and rehabilitation of Affected Persons under specific activities under the Project, as the same may be modified from time to time with the prior written agreement of the Bank, and such term includes any annexes or schedules to such plan.

14. “Resettlement Policy Framework” means SEDC’s framework, dated October 2018 and agreed with the Bank, setting forth mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, and establishment and maintenance of a grievance redress mechanism, pertaining to land acquisition and the compensation, resettlement, and rehabilitation of Affected Persons under the Project, and guidelines and procedures for the preparation of Resettlement Action Plans, as the same may be modified from time to time with the prior written agreement of the Bank, and such term includes any annexes or schedules to such framework.
15. "Safeguards Instruments" means, collectively, the Environmental and Social Management Framework, any Environmental and Social Management Plans, the Resettlement Policy Framework, and any Resettlement Action Plans, and such term includes any annexes or schedules to such instruments.

16. "SEDC" means South Electricity Distribution Company, the Borrower’s wholly-owned company, established on April 20, 1998 and operating pursuant to Article 6 of the Borrower’s Public Companies Law No. 22 of 1997, which registration was published in the Borrower’s Gazette No. 3718, responsible for the distribution of electricity in the southern part of the Borrower’s territory, or a successor thereto.

17. "SEDC Project Management Team" means the team within SEDC, responsible for carrying out activities under Parts 2 and 3 of the Project.

18. "SETC" means South Electricity Transmission Company, the Borrower’s wholly-owned company, established on March 6, 2019 pursuant to Establishment Certificate No. 623 and operating pursuant to Article 6 of the Borrower’s Public Companies Law No. 22 of 1997, responsible for the transmission of electricity in the southern part of the Borrower’s territory, or a successor thereto.

19. "SETC Project Management Team" means the team within SETC responsible for carrying out activities under Part 1 of the Project, or a successor thereto.

20. "Signature Date" means the later of the two (2) dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to “the date of the Loan Agreement” in the General Conditions.

21. "Training" means the costs of training under the Project, based on the annual work plans and budgets referred to in Section I.C of the Schedule to the Project Agreement as approved by the Bank, and attributable to seminars, workshops, and study tours, along with domestic and international travel and subsistence allowances for training participants, services of trainers, rental of training facilities, preparation and reproduction of training materials, and other activities directly related to course preparation and implementation.