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CREDIT NUMBER 4249 - IQ

Financing Agreement

(Dokan and Derbandikhan Emergency Hydropower Project)

between

REPUBLIC OF IRAQ

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 2 , 2007

Public Disclosure Authorized

CREDIT NUMBER 4249 - IQ

FINANCING AGREEMENT

AGREEMENT dated April 2, 2007, between REPUBLIC OF IRAQ (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty seven million Special Drawing Rights (SDR 27,000,000) (“Credit”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.

- 2.07. The Payment Currency is United States Dollars.

ARTICLE III - ROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance.
- 5.02. The Recipient's Address is:

Ministry of Finance
Hay Alaloom,
Bab Al Mu'dham

- 5.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	1-202-477-6391

AGREED at Baghdad, Republic of Iraq and District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF IRAQ

By /s/ Bayan Jabr

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By / s/ Joseph P. Saba

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to help alleviate the current power shortfall in the Recipient's territory through urgent repair works and prepare for the subsequent rehabilitation of the Dokan and Derbandikhan hydropower plants.

The Project consists of the following parts:

Part 1: Repairs for Dokan. This component will involve the following activities.

- 1.1 Installation, testing, and commissioning of new excitation equipment; and training for operations and maintenance staff.
- 1.2 Provision of spare parts for compressors; and training for operations and maintenance staff.
- 1.3 Repair of the gas insulated switchgear for Unit No. 1.
- 1.4 Installation of a synchronous condenser system; testing and commissioning the synchronous condenser system; and training for operations and maintenance staff.
- 1.5 Design, supply, installation, and commissioning of a new control system; and training for operations and maintenance staff.
- 1.6 Re-establishment of an adequate instrumentation and monitoring dam-safety system based on an instrument-criticality analysis; and training for operations and maintenance staff.

Part 2: Repairs for Derbandikhan. This component will involve the following activities:

- 2.1 Installation, testing, and commissioning of new excitation equipment; and training for operations and maintenance staff.
- 2.2 Replacement of switchgears, metering, and control and protection equipment; provision of necessary spare parts; and training for operations and maintenance staff.
- 2.3 Design, supply, installation, and commissioning of a new control system; and training for operations and maintenance staff.
- 2.4 Carrying out dam-safety designs and emergency civil works necessary for ensuring for dam safety.

Part 3: Assessment of Rehabilitation Needs, Environmental Assessment and Dam Safety, Engineering, and Other Support. This component will involve the following activities:

- 3.1 Financing of engineering services. The sub-components include: (i) provision of pre-contract award services for emergency repairs; (ii) supervision of supply, installation and commissioning of emergency activities; (iii) review and update of previous assessments of rehabilitation needs carried out for the power plants in order to extend their operational lives by at least 20 years; (iv) carrying out hydrographic surveys to assess the current capacities of the two reservoirs; and (v) preparation of designs and bid documents for the rehabilitation.
- 3.2 Environmental impact assessment for the future rehabilitation of the Dokan and Derbandikhan hydropower stations and dams, including preparation of emergency preparedness plans.
- 3.3 Other urgent remedial and repair works at the power stations.
- 3.4 Support for the Project Management Team, including financing operating and travel costs, office equipment, expenses associated with fiduciary requirements such as audits and environmental matters, but not including staff salaries.
- 3.5 Support to the Project Management Team in supervising the urgent repair work.
- 3.6 Training and capacity building, especially in environment, financing management, and procurement matters.

SCHEDULE 2

Project Execution

Section I. Financial Management, Financial Reports, and Project Reports

1. The Recipient shall cause the Project Implementing Entity to maintain a financial management system in accordance with the provisions of the Project Agreement.
2. The Recipient shall cause the Project Implementing Entity to prepare financial statements and have these statements audited in accordance with the requirements of the Project Agreement.
3. The Recipient shall cause the Project Implementing Entity to monitor and evaluate the progress of the Project and to prepare Project Reports in accordance with the provisions of the Project Agreement, Section 4.08 of the General Conditions, and on the basis of the indicators agreed with the Association.

Section II. Procurement

A. **General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. **Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraphs 2 and 3 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **National Competitive Bidding.** Except as otherwise provided in paragraph 3 below, works estimated to cost less than \$5,000,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding, and goods estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding, in each such case subject to the following additional procedures:
- (i) Standard bidding documents approved by the Association shall be used.
 - (ii) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper and bidding documents shall be made available to prospective bidders, at least twenty eight (28) days prior to the deadline for the submission of bids.
 - (iii) Bids shall not be invited on the basis of percentage premium or discount over the estimated cost.
 - (iv) Bidding documents shall be made available, by mail or in person, to all who are willing to pay the required fee.
 - (v) Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders.
 - (vi) Qualification criteria (in case pre-qualifications were not carried out) shall be stated in the bidding documents, and if a registration process is required, a foreign firm determined to be the lowest evaluated bidder shall be given reasonable opportunity of registering, without any hindrance i.e. no non-registration status should be considered as a non-eligibility-to-bid criterion.
 - (vii) Bidders may deliver bids, at their option, either in person or by courier service or by mail.
 - (viii) Bids shall be opened in public in one place preferably immediately, but no later than one (1) hour, after the deadline for submission of bids.
 - (ix) Evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format, and within the specified period, agreed with the Association.
 - (x) Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association.

- (xi) Split award or lottery in award of contracts shall not be carried out. When two or more bidders quote the same price, an investigation shall be made to determine any evidence of collusion, following which: (A) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and (B) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association.
- (xii) Contracts shall be awarded to the lowest evaluated bidders within the initial period of bid validity so that extensions are not necessary. Extension of bid validity may be sought only under exceptional circumstances.
- (xiii) Extension of bid validity shall not be allowed without the prior concurrence of the Association: (A) for the first request for extension if it is longer than eight (8) weeks; and (B) for all subsequent requests for extensions irrespective of the period.
- (xiv) Negotiations shall not be allowed with the lowest evaluated or any other bidders.
- (xv) Re-bidding shall not be carried out without the Association's prior concurrence.
- (xvi) All contractors or suppliers shall provide performance security as indicated in the contract documents. A contractor's or a supplier's performance security shall apply to a specific contract under which it was furnished.

3. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding and National Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) Shopping
(b) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(b) Least Cost Selection
(c) Selection based on Consultants' Qualifications

D. Review by the Association of Procurement Decisions

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

Section III. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (Expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods	100,000	100%
(2) Works	20,400,000	100%
(3) Consultants services and training	3,600,000	100%
(4) Incremental operating costs	200,000	100%
(5) Unallocated	2,700,000	
TOTAL AMOUNT	27,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$7,500,000 equivalent may be made for payments made prior to this date but on or after August 21, 2006, for Eligible Expenditures.
2. The Closing Date is December 31, 2010.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (Expressed as a percentage)*
On each March 15 and September 15:	
commencing March 15, 2017 to and including September 15, 2026	1.25%
commencing March 15, 2027 to and including September 15, 2041	2.50%

*The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Category” means a category set forth in the table in Section III of Schedule 2 to this Agreement.
2. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
3. “ESSAF” means the Revised Environmental and Social Screening and Assessment Framework furnished by the Association to the Recipient in April 2006 for use in projects to be carried out by the Recipient and financed by the Association, in its own capacity or as administrator of the World Bank Iraq Trust Fund; setting out, among other things, policies, guidelines and procedures to be applied to the Project regarding environmental impact screening and assessment, environmental mitigation plans and measures, land acquisition, and resettlement policy framework and plans, as the same may be updated or revised from time to time.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, with the modifications set forth in Section II of this Appendix.
5. “Incremental Operating Costs” means incremental costs of operation of the Project Management Team, including maintenance and rental of office equipment and vehicles, travel costs, and consumables, but excluding salaries of employees.
6. “Master Implementation Manual” means the Master Implementation Manual prepared by the Association in August 2005, for use in projects to be carried out by the Recipient and financed by the Association, in its own capacity or as administrator of the World Bank Iraq Trust Fund, setting out, among other things, details of procedures and guidelines relating to procurement, financial management, and other operational and administrative arrangements for the carrying out of such projects.
7. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
8. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated September 16, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

9. “Project Implementing Entity” means the Ministry of Electricity of the Kurdistan Regional Government.
10. “Project Implementation Manual” means the Project Implementation Manual to be prepared by the Project Implementing Entity, setting out, among other things, details of all procedures, guidelines, timetables and criteria required for the Project, including the procurement, financial, administrative, safeguard and operational arrangements relating to the carrying out of the Project, and incorporating relevant and applicable provisions of the Master Implementation Manual.
11. “Project Management Team” means the Project Management Team to be constituted by the Project Implementing Entity and maintained pursuant to Part B Section I of the Schedule to the Project Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005, are as follows:

The following modification is made to “International Development Association General Conditions for Credits and Grants” dated July 1, 2005, namely that the existing wording in sub-paragraphs (i) and (ii) of Section 3.03(b), “*Accelerated Repayment*,” is deleted in its entirety and the following language is substituted in these sub-paragraphs:

- (i) At any time after December 12, 2011, the Association may modify the repayment of installments of the Withdrawn Credit Balance as provided in the Financing Agreement in accordance with sub-paragraph (ii) or (iii) of this paragraph whenever all of the following events have occurred: (A) the Recipient’s per capita gross national income, as determined by the Association, has exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association’s resources; (B) the Bank considers the Recipient creditworthy for Bank lending; and (C) after due consideration of the development of the Recipient’s economy, the Executive Directors of the Association have reviewed and approved such modification.
- (ii) The Association shall, upon the occurrence of the events referred to in paragraph (b)(i) of this Section: (A) require the Recipient to repay twice the amount of each installment of the Withdrawn Credit Balance not yet due until the Credit has been fully repaid; and (B) require the Recipient to commence such repayment as of the first semiannual Principal Payment Date falling six (6) months or more after the date on which the Association notifies the Recipient that such events have occurred;

provided, however, that there shall be a grace period of a minimum of ten (10) years on such repayment.

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