

CONFORMED COPY

CREDIT NUMBER 4212 - IQ

Financing Agreement

(Emergency Road Rehabilitation Project)

between

REPUBLIC OF IRAQ

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 2, 2007

CREDIT NUMBER 4212 - IQ

FINANCING AGREEMENT

AGREEMENT, dated April 2, 2007, between the REPUBLIC OF IRAQ (“Recipient”) and the 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 ninety-three million, two hundred thousand Special Drawing Rights (SDR 93,200,000) (“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 IV 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause Part A of the Project to be carried out by SCRB and Part B of the Project to be carried out by GDRB, 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
Baghdad, Iraq

- 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)	(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 improve the condition of road assets by rehabilitating highly damaged segments of the Recipient country's highway and rural road network, reestablishing critical river crossings, and restoring the capacity to manage and maintain road assets, thereby contributing to the country's economic and social recovery.

The Project consists of the following parts:

Part A: Activities for the 15 Central and Southern Governorates

1. Rehabilitation of priority sections of the highway network (about 300 km), including pavement repairs and strengthening, shoulder stabilization, and road furnishings.
2. Upgrading of about 150 km of village access roads in several locations.
3. Provision of critical river crossings (about 3) by replacing old decaying floating bridges with safer permanent concrete bridges.
4. Development of road maintenance and management strategies and establishment of a road asset management system, including preparation of a multi-year national road rehabilitation program and a village access road program, along with their associated financing plans, and capacity building activities.
5. Project management and support activities necessary for effective implementation of the Project, including the provision of technical assistance and training.

Part B: Activities for the Three KRG Governorates

1. Rehabilitation and upgrading of about 38.5 km of the main road from Erbil to Altun-Kopri.
2. Rehabilitation of about 75 km of rural roads connecting remote villages.
3. Development of road rehabilitation and maintenance management strategies and establishment of a road asset management system, including preparation of a highway-rehabilitation-and-maintenance program and a village-access-road program, and capacity-building activities.

4. Project management and support activities necessary for effective implementation of the Project, including the provision of technical assistance and training.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Budgetary-Transfer Arrangements

1. To facilitate the carrying out by SCRB of Part A of the Project and the carrying out by GDRB of Part B of the Project, the Recipient shall make the proceeds of the Financing available to SCRB and GDRD, respectively, through appropriate budgetary-transfer arrangements between the Recipient and SCRB and GDRB, respectively, under terms and conditions approved by the Association.

B. Selection of Roads; Substitution under Unforeseen Circumstances

1. The Recipient shall ensure that SCRB and GDRB select the roads and bridges to be included in the Project in accordance with selection criteria satisfactory to the Association and that neither SCRB nor GDRB shall undertake any activities relating to any roads or bridges without the prior written approval by the Association of the selection of such roads or bridges.
2. If the Association determines at any time that, due to any new developments or previously unforeseen circumstances: (i) continuation of civil works and related activities on any road or bridge is not feasible or practicable under the Project and (ii) another road or bridge should be substituted and the funds allocated to such civil works and related activities should be reallocated to such other road or bridge, the Recipient shall ensure that SCRB or GDRB, or both, as the case may be, shall promptly take all necessary action in order to give effect to such substitution of roads or bridges and reallocation of funds.

C. Master Implementation Manual and Project Implementation Manual

1. The Recipient shall ensure that the Project will be carried out: (i) in accordance with the provisions of the Master Implementation Manual until the Project Implementation Manual satisfactory to the Association shall have been prepared; and (ii) thereafter, in accordance with the provisions of the Project Implementation Manual.
2. Except as the Association shall otherwise agree, the Recipient shall ensure that no provision of the Project Implementation Manual or the Master Implementation Manual is amended or waived if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

D. SCRБ-PMT and GDRB-PMT

1. The Recipient shall ensure, or shall cause SCRБ and GDRB, respectively, to ensure, that the SCRБ-PMT and the GDRB-PMT are maintained with functions, staffing and resources satisfactory to the Association. SCRБ-PMT shall be headed by a SCRБ-PMT Leader and the GDRB-PMT shall be headed by a GDRB-PMT Leader. These leaders shall have qualifications and experience, and be appointed on terms and conditions, satisfactory to the Association. The Recipient shall ensure, or shall cause SCRБ and GDRB, respectively to ensure, that the SCRБ-PMT and the GDRB-PMT shall be staffed with an adequate number of professionals, including specialists in procurement, engineering, financial management, monitoring and reporting, and environmental and social safeguards.
2. SCRБ-PMT shall be responsible for, *inter alia*: (i) the planning and coordination of all Project activities under Part A of the Project; (ii) financial management, including accounting and disbursements under Part A of the Project; (iii) procurement of goods, works and services, including related contract management under Part A of the Project; and (iv) the monitoring and evaluation of Project activities under Part A of the Project.
3. GDRB-PMT shall be responsible for, *inter alia*: (i) the planning and coordination of all Project activities under Part B of the Project; (ii) financial management, including accounting and disbursements under Part B of the Project; (iii) procurement of goods, works and services, including related contract management under Part B of the Project; and (iv) the monitoring and evaluation of Project activities under Part B of the Project.

E. Environmental and Social Safeguards

1. The Recipient shall ensure, or shall cause SCRБ and GDRB, respectively, to ensure, that the recommendations of ESSAF get carried out in accordance with the objectives, policies, procedures, time schedules and other provisions set forth therein.
2. The Recipient shall ensure that no action is taken which shall prevent or interfere with the carrying out of the recommendations of ESSAF.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in Schedule 4 to this Agreement.
2. The Recipient shall ensure that SCRB and GDRB monitor and evaluate the progress of Part A and Part B of the Project, respectively, and prepare Project Reports for their respective part of the Project in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in Schedule 4 to this Agreement. Each Project Report shall cover the period of six (6) months, and shall be furnished to the Recipient not later than thirty (30) days after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.
3. The Recipient shall ensure that SCRB and GDRB provide to the Recipient not later than six (6) months after the Closing Date, for incorporation in the report referred to in Section 4.08 (c) of the General Conditions, all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

4. The Recipient shall ensure that SCRB and GDRB maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of SCRB and GDRD, respectively, including the operations, resources and expenditures related to their respective part of the Project.
5. The Recipient shall ensure that SCRB and GDRB shall have their respective financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of SCRB and GDRB, respectively. The audited financial statements for each such period shall be furnished to the Association not later than six (6) months after the end of the period.

Section III. 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) Least-Cost Selection
(b) Selection Based on Consultants' Qualifications
(c) Single-Source Selection
(d) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(e) Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

1. (a) The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review.

(b) In addition, the following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of \$50,000 or more: (i) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraphs 3 and 4 of Appendix 1 to the Consultant Guidelines shall apply to the contract. The following prior review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (i) the qualifications,

experience, terms of reference and conditions of employment of the consultants shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraphs 3 and 4 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

(c) All other contracts shall be subject to Post Review by the Association.

Section IV. 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 and of this Section and such additional instructions as the Association may specify by notice to the Recipient, 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) Works:		
(a) under Part A of the Project	51,018,000	100%
(b) under Part B of the Project	25,129,000	100%
(2) Goods:		
(a) under Part A of the Project	1,173,000	100%
(b) under Part B of the Project	552,000	100%
(3) Consultants' Services and training:		
(a) under Part A of the Project	4,280,000	100%
(b) under Part B of the Project	2, 623,000	100%
(4) Incremental Operating Costs:		
(a) under Part A of the Project	200,000	100%
(b) under Part B of the Project	140,000	100%
(5) Unallocated:		
(a) under Part A of the Project	5,462,000	
(b) under Part B of the Project	2,623,000	
Total Amount	93,200,000	

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 \$10,000,000 equivalent may be made for payments made prior to this date but on or after March 1, 2006, for Eligible Expenditures.
2. The Closing Date is June 30, 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 September 15, 2016 to and including March 15, 2026	1.25%
commencing September 15, 2026 to and including March 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 IV 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, collectively: (i) the Environmental and Social Screening and Assessment Framework furnished by the Association to the Recipient in April 2004 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; and (ii) the Environmental and Social Screening and Assessment Framework dated February 2, 2006, prepared specifically for the Project; setting out, *inter alia*, 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 with the agreement of the Association.
4. "GDRB" means the General Directorate for Roads and Bridges within the Ministry of Construction and Housing of the KRG, or any successor thereto.
5. "GDRB-PMT" means GDRB's Project Management Team to be maintained pursuant to Part D of Section I of Schedule 2 to this Agreement.
6. "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.
7. "Governorate" means a Governorate in Iraq.
8. "Incremental Operating Costs" means costs incurred under the Project on account of: (i) maintenance of office equipment and vehicles; (ii) transportation and travel, including per diem allowances for Project staff in travel status; (iii) rental of office space; (iv) office supplies, utilities and office administration, including translation, printing and advertising; (v) fuel costs; (vi) communication costs; (vii) cost for production of bidding documents and drawings; (viii) commercial bank charges; and (ix) any other Project management support costs as may be agreed between the Recipient and the Association from time to time, but excluding salaries of the Recipient's civil servants.

9. “KRG” means the Kurdistan Regional Government of the Recipient, or any successor thereto.
10. “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, *inter alia*, details of procedures and guidelines relating to procurement, financial management and other operational and administrative arrangements for the carrying out of such projects.
11. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
12. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 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.
13. “Project Implementation Manual” means the Project Implementation Manual to be prepared by the Recipient, setting out, *inter alia*, 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.
14. “SCRB” means the State Commission for Roads and Bridges within the Ministry of Construction and Housing of the Recipient, or any successor thereto.
15. “SCRB-PMT” means SCRB’s Project Management Team to be maintained pursuant to Part D of Section I of Schedule 2 to this Agreement.

Section II. Modifications to the General Conditions

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 June 29, 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.

SCHEDULE 4

Performance Indicators for the Project

Part A:

1. 300 km of main road links rehabilitated.
2. 150 km of village-access roads rehabilitated.
3. Three (3) temporary floating river crossings replaced by permanent structures (bridges).
4. A road-assets management system (including road database, pavement management system, and road laboratory equipment) implemented and made operational.
5. A road-rehabilitation program developed.
6. A village-access-road program developed.

Part B:

1. The Erbil – Altun Kopri Road (38.5 km) rehabilitated and widened.
2. 75 km of village access roads rehabilitated.
3. A road assets management system (including road database, pavement management system, and road laboratory equipment) implemented and made operational.
4. A road-rehabilitation program developed.
5. A village-access-road program developed.

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