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PROPOSED PROGRAMME BUDGET FOR THE BIENNIUM 1978-1979

United Nations Environment Programme

Administrative arrangements regarding the United Nations Habitat
and Human Settlements Foundation

Note by the Secretary-General

INTRODUCTION

1. The financial aspects of the activities in the field of human settlements were strongly emphasized by the United Nations Conference on Human Environment convened in Stockholm in 1972. The Conference recommended that Governments and the Secretary-General take immediate steps towards the establishment of an international fund or a financial institution whose primary operative objectives would be to assist in strengthening national programmes relating to human settlements, through the provision of seed capital and the extension of the necessary technical and financial assistance to permit an effective mobilization of domestic resources for housing and environmental improvement of human settlements.

2. The sponsors of that recommendation at the Conference stressed that a multicurrency fund for human settlements would open a new era of international co-operation. The General Assembly, in its resolution 2999 (XXVII) of 15 December 1972, endorsed in principle the establishment of an international fund or financial institution for the purpose envisaged in recommendation 17 ^{1/} of the Action Plan for the Human Environment and requested the Secretary-General to prepare a study on the establishment and operations of such a fund or institution, together with his recommendations and proposals, and to report thereon to the Assembly at its twenty-ninth session through the Governing Council of the United Nations Environment Programme (UNEP) and the Economic and Social Council.

^{1/} Recommendation 17, report of the United Nations Conference on the Human Environment (A/CONF.48/14/Rev.1).

3. Accordingly, the Secretary-General presented his report (A/9575) dated 24 April 1974, in which he proposed that a trust fund be established as part of the international community global effort in the field of environment for a facility whose primary objectives would be in accordance with recommendation 17 of the Stockholm Conference. The Secretary-General emphasized in his report the seed capital operations and, in that respect, stated, in paragraph 35 of his report, that "although primary emphasis would naturally be placed on obtaining seed capital from domestic financial sources, an important financial service to be provided by the new facility would be to make available, or to help mobilize from other sources, external seed capital needed for establishing or strengthening domestic financial institutions concerned with human settlements programmes".

4. The Governing Council of UNEP, at its second session, considered the report of the Secretary-General and, in its decision 16 (II), recommended that the General Assembly decide that a voluntary International Habitat and Human Settlements Foundation be established as from 1 January 1975, with the primary objectives envisaged in recommendation 17 of the Stockholm Conference. The Economic and Social Council, in its resolution 1882 (LVII) dated 31 July 1974, recommended that the General Assembly approve the recommendation contained in Governing Council decision 16 (II). The General Assembly, in its resolution 3327 (XXIX) of 16 December 1974, approved the establishment of the United Nations Habitat and Human Settlements Foundation as from 1 January 1975. The following provisions in the annex to that resolution are of special relevance:

"1. Decides that a voluntary international habitat and human settlements foundation 2/ be established as from 1 January 1975 in accordance with the provisions set forth below:

"(a) The primary operative objective of the Foundation will be to assist in strengthening national environmental programmes relating to human settlements, particularly in the developing countries, through the provision of seed capital and the extension of the necessary technical and financial assistance to permit an effective mobilization of domestic resources for human habitat and environmental design and improvement of human settlements ...

"(b) Under the authority and guidance of the Governing Council of the United Nations Environment Programme, the Executive Director of the Programme shall be responsible for administering the Foundation and providing the technical and financial services related to that institution;

"(c) The Executive Director is instructed to prepare a plan and programme of operations for the Foundation, for approval by the Governing Council at its third session, which reflect the primary operative objectives of subparagraph (a) above;

"...

2/ Now called the United Nations Habitat and Human Settlements Foundation.

"(f) The Executive Director will undertake to seek the co-operation and support of financial institutions in developed and developing countries, in fulfilment of the objectives of the Foundation;

"...

"2. Invites the active participation and collaboration of the agencies and bodies within the United Nations system, as well as of regional financial and technical institutions, in the activities of the Foundation, particularly with regard to seed capital and the financing of operational human settlements projects, bearing in mind General Assembly resolution 2998 (XXVII) of 15 December 1972 and 3130 (XXVIII) of 13 December 1973;

"3. Authorizes the Executive Director of the United Nations Environment Programme to launch an international fund-raising appeal for a maximum funding of the Foundation."

5. The Economic and Social Council, in its resolution 1914 (LVII) dated 10 December 1974, on rationalization of the work of the Foundation and the work of the Centre for Housing, Building and Planning, among other things, decided that the function of housing finance and housing finance policy and those technical co-operation activities being carried out by the Centre for Housing, Building and Planning under that function, together with any overhead resources allocated for that purpose, be transferred to the United Nations International Habitat and Human Settlements Foundation after the plan and programme of operations of the Foundation had been approved by the Governing Council of the United Nations Environment Programme at its third session.

ADMINISTRATIVE ARRANGEMENTS OF THE FOUNDATION

The administrative arrangements of the Foundation have three elements: personnel arrangements, auditing arrangements and financial arrangements.

1. Personnel arrangements

6. The Governing Council of UNEP, by its decision 72 (IV) dated 13 April 1976, approved the "General Procedures governing the operations of the United Nations Habitat and Human Settlements Foundation". The Governing Council, at its fifth session, by its decision 94 (V) dated 24 May 1977, amended some sections of the General Procedures. With regard to the personnel arrangements of the Foundation, the following sections of the General Procedures are relevant:

"Section D. The Administration

"1. The Administrator of the Foundation, who shall have the rank of Assistant Secretary-General, shall be appointed by the Secretary-General of the United Nations on the recommendation of the Executive Director.

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"2. The Administrator shall be responsible to the Executive Director for the operation and management of the Foundation and its resources.

"...

"Section 0. The staff of the Foundation

"1. The staff of the Foundation shall be appointed for service specifically with the Foundation by the Executive Director on the advice of the Appointment and Promotion Board of the United Nations Environment Programme.

"2. The appointment and promotion of the staff of the Foundation shall be subject to the provisions of the Staff Regulations and Staff Rules of the United Nations."

7. These provisions were presented by the Executive Director of UNEP to the Governing Council after consultations with the services concerned at United Nations Headquarters.

8. In addition to the relevant sections of the General Procedures, the Secretary-General intends to promulgate the following provisions to be applicable to the Foundation staff:

(a) The principle of recruitment on as wide a geographical basis as possible would govern the staff paid from the Foundation's resources, in accordance with the guidelines approved for the voluntary programmes.

(b) The administrative bodies established by the Secretary-General to advise him on staff matters, such as the Joint Appeals Board, the Claims Board and the Advisory Board on Compensation Claims, would have jurisdiction as regards staff paid from the Foundation's resources.

9. The Secretary-General recommends to the General Assembly to take note of his intention in this respect.

2. Internal audit arrangements

10. Presently, the same internal audit arrangements as for UNEP are applied to the Foundation. The Secretary-General proposes that the following internal audit arrangements, which are identical to those of UNEP, should be applicable to the Foundation:

"The United Nations Internal Audit Service would be responsible for the review of the personnel and financial transactions of the Fund and would report thereon to the Executive Director. A copy of the reports of the Internal Audit Service would be furnished to the Secretary-General. These reports would be subject to review by, or on behalf of, the Secretary-General and the Executive Director, as required."

The General Assembly may wish to take note of the Secretary-General's proposal.

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3. Financial arrangements

11. The financial character of the Foundation, according to General Assembly and Economic and Social Council resolutions, as well as the UNEP Governing Council decisions, was stated in the introduction to this note. The General Assembly, in its resolution 3327 (XXIX), instructed the Executive Director to prepare a plan and programme of operations for the Foundation and authorized the Governing Council to approve it. The approved plan and programme of operations is contained in document UNEP/GC/36 dated 27 February 1975. The section of the plan on financial questions covers the following points:

(a) Resources

12. The General Assembly resolution established the Foundation to be voluntary in nature. At its second session in March 1974, the Governing Council decided to make a one-time grant of \$4 million over a period of four years to help the Foundation get established. The General Assembly also authorized the Executive Director of UNEP "to launch an international fund-raising appeal for a maximum funding of the Foundation". This should be viewed as including voluntary contributions of all kinds, from governmental as well as private sources, which would support the Foundation's activities.

13. Contributions might be made available from other parts of the United Nations system towards the support of projects or parts of projects undertaken by the Foundation. Attention is drawn to the reference in paragraph 2 of the annex to resolution 3327 (XXIX) to participation and collaboration in financing its operations by sources external to the Foundation. A clear possibility is UNDP support of various technical assistance activities. Of course, parallel financing, sharing of concern and costing of a programme among various organizations of the United Nations system (particularly UNDP and the UNEP Fund) and the Foundation, both concurrently and over time, as different agencies may pick up different phases of a programme, will be explored and encouraged.

(b) Account of the Foundation

14. The financial resources of the Foundation will be held in separate trust funds, and accounts will be established for the Foundation by the Secretary-General and governed by regulations, rules and procedures applicable to those funds.

15. The Executive Director of UNEP will be responsible and accountable to the Governing Council for all phases and aspects of the operations of the financial resources of the Foundation. While retaining this responsibility, the Executive Director intends to delegate the primary responsibility for their operation and management to the Administrator of the Foundation.

(c) Financial policy considerations

16. The financial policies of the Foundation may be approached by examining separately the distinctly different kinds of activities it is to perform: technical services, financing services and facilitating efforts to encourage flow of resources to the human settlements sector from other contributors.

(i) Technical services

17. It seems best to provide various kinds of technical assistance or technical services by way of grants, as it would be a substantial change from established United Nations policies to provide such assistance through loans or credits or any other form of reimbursable technical assistance. Technical assistance, however, often is folded into the loans or credits of the World Bank group and the regional banks. Nevertheless, some portion of the programme should appropriately be borne by a recipient country. This may be done, as in the case of UNDP projects and programmes, through provision by the recipient country of personnel, facilities and administrative support, i.e., facilities and support which for the most part can be supplied in kind or by local currency payments by the recipient country.

(ii) Seed capital and other financial services

18. Seed capital would be provided by the Foundation to give strength to an institution in its early life or during a period of strengthening but not necessarily for an extended period of time. Major decisions concerning seed capital operations of the Foundation have to be made with respect to:

- a. Terms and conditions for seed capital financing;
- b. Repayment period.

19. Regarding terms and conditions, it is suggested that the Foundation be prepared, under suitable conditions, to provide seed capital at no interest (with or without a small service charge for administrative costs) or as a credit with a nominal interest rate of from 2 to 3 per cent. The best terms should, of course, be extended when seed capital is supplied to the least developed countries.

20. As to the repayment period, it is suggested that it should not normally exceed 10 to 12 years, including up to 5 years during which no payment or only minimum payments might be required. Emphasis on reimbursement of the seed capital in a reasonable period of time is desirable in order to make possible the recycling of funds for seed capital operations as needs arise. Furthermore, a programme of reimbursable seed capital would help recipient Governments or organizations to introduce additional measures of financial discipline into the operations of the financial agencies concerned.

21. Reimbursable operations would further enable the Foundation to use funds made available to it from external sources. While voluntary contributions would best be made to the Foundation in grant form, one should provide for the possibility of financing seed capital operations from funds borrowed by the Foundation. In such cases, it would be desirable to secure these borrowings at the least possible cost, or at no cost (e.g., the Asian Development Bank receives some of its special funds in this manner).

(iii) Assistance arrangements between donors and recipients

22. In dealing with programmes put forward by developing countries, the Foundation should serve the important function of co-ordinating possible sources of financing for technical assistance, seed capital and development lending. In such cases, the role of the Foundation would be to help identify a source of assistance which would best suit the project and/or recipient country and which would provide the assistance on the best terms. It would not be the responsibility of the Foundation, however, to decide those terms. In addition to making available from its own resources technical assistance on a grant basis to support institution building or project preparation and seed capital on reimbursable bases, the Foundation would also play a role in facilitating the securing by recipients of both seed capital and development lending assistance from other contributors for these programmes.

23. In its financial operations, the Foundation should also be prepared to offer the possibility and the facilities, if assisting countries wish, of using the Foundation as a channel through which to finance developing countries' programmes and projects in this sector. The terms on which such assistance should be extended, including the financing terms as well as possible emphasis on certain countries (e.g., concentration on least developed countries or possibly on countries of a particular region), would depend essentially upon the conditions under which resources are made available to the Foundation.

24. The principal financial activities to be conducted under the United Nations Financial Regulations and Financial Rules are the following:

a. Financial transactions relating to the Foundation's technical assistance activities;

b. The Foundation's lending operations;

c. The Foundation capital formation and borrowing operations;

d. The Foundation's administrative expenses.

a. Technical assistance activities

25. The plan and programme of operations of the Foundation (UNEP/GC/36), as approved by the Governing Council of UNEP, provides, in paragraph 14, that the various kinds of technical assistance or technical services shall be extended by the Foundation by way of grants. The existing financial regulations, rules and procedures of the United Nations provide an adequate basis for conducting the Foundation's financial transactions relating to its technical assistance activities.

b. The Foundation's lending operations

26. As stated earlier, the General Assembly, in its resolution 3327 (XXIX), and the Governing Council of UNEP have emphasized, as a primary function of the Foundation, the provision of seed capital to developing countries to give strength

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to an institution in its early life or during a period of strengthening. The Governing Council has also approved the Foundation's providing seed capital to developing countries at no interest (with or without small service charge for administrative costs) or as a credit with a nominal interest of from 2 to 3 per cent. The Governing Council has also approved that loans should normally be repaid within 10 to 12 years, including up to 5 years during which no payment or only minimum payments might be required. However, in order to allow revolving use of the funds, the period of repayment should be as short as possible.

27. In view of the central role of seed capital operations in the mandate of the Foundation, the Executive Director of UNEP intends to allocate 50 per cent of the total voluntary contributions to the Foundation for seed capital purposes. In that it is planned to make most of the seed capital available to recipients on a reimbursable basis, a significant proportion of these voluntary contributions will return to the Foundation which, when taken together with new contributions received, should result in a continuously growing revolving fund.

28. The Executive Director, in consultation with the Office of Legal Affairs and the Department of Administration and Management, has worked out a loan agreement instrument covering the following points:

- i. The loan
- ii. Uses of proceeds of the loan
- iii. Borrower's obligations regarding execution and monitoring of the project
- iv. General provision covering, inter alia,
 - (a) Default in payment of principal, interest or other charges required under the loan agreement;
 - (b) Default by the borrower or its agents in the performance of any covenant undertaken by the loan agreement
- v. Schedule of repayment.

29. In accordance with the provision of the loan agreement instrument, the first seed capital credit was extended to the Government of the Kingdom of Lesotho and the agreement was signed by the Minister of Finance on behalf of his Government. The second seed capital loan agreement will be concluded shortly with the Government of Bolivia. The text of a model loan agreement is attached as annex I.

c. The Foundation capital formation and borrowing operations

30. General Assembly resolution 3327 (XXIX) provides that the primary sources of funds for the Foundation would come essentially from Member States by way of voluntary grants. The General Assembly authorized the Executive Director of UNEP to launch an international fund-raising appeal for a maximum funding of the Foundation. The Executive Director proposed to the fifth session of the Governing

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Council of UNEP that it recommend to the General Assembly the establishment of a minimum target of a total contribution of \$US 50 million to be contributed by Governments during the period 1978-1981.

31. The Executive Director has also approached some private organizations with a view to securing their collaboration in promoting activities in the field of human settlements financing and, to the extent possible, their extending of financial support to the Foundation.

32. As stated earlier, the Executive Director intends that 50 per cent of the capital received from Governments and other sources as voluntary contributions be allocated to reimbursable seed capital operations. However, the amount of funds expected to be required by the Foundation for loans to recipients suggests that borrowing by the Foundation will be necessary as well. It follows that the extent to which the Foundation can borrow the additional funds needed from Governments and other sources will depend primarily on the cost of the money borrowed by the Foundation, as compared with the return on such money lent by the Foundation to developing countries. The Executive Director of UNEP would attempt in this way to generate more resources for the approved purposes of the Foundation. The Executive Director of UNEP would, of course, be governed by the policies decided upon by the Governing Council of UNEP and by the Financial Regulations and Rules promulgated by the Secretary-General in deciding on the rates of interest to be charged on seed capital loans extended by the Foundation, bearing in mind the interest rates required to be paid by the Foundation for money it borrows.

33. The plan and programme of operations of the Foundation envisages the possibility of additional seed capital operations being financed from funds borrowed by the Foundation. Further, in order to maximize the usefulness of such funds, borrowings by the Foundation should desirably be at no cost or at very low rates. At this stage, however, it is most likely that a large proportion of the borrowings by the Foundation would have to be at higher rates of interest than the rates at which the Foundation could lend the money. The difference could be covered by investing an adequate proportion of the capital of the Foundation in banks at commercial rates of interest.

34. It is proposed that the maximum which the Foundation be permitted to borrow be limited, at least initially, to 80 per cent of the capital received by the Foundation, after setting aside amounts to be reserved for technical assistance grants, seed capital, and administrative expenses. This 80 per cent set aside would be a part of the invested funds of the Foundation and could be pledged, as necessary, as security for the amounts borrowed.

35. The interest gained on the Foundation's cash invested would be used:

- i. To pay the difference between the two rates of interest, i.e., the rate at which the Foundation is able to borrow its money and the (usually lower) rate at which it would lend money to recipients;

- ii. To cover the administrative cost of running the lending and borrowing operations of the Foundation;
- iii. To assist in defraying the administrative costs of the Foundation.

36. The borrowing of money by the Foundation from Governments or other sources would constitute a liability solely against the resources set aside by the Foundation to secure such borrowings.

d. The Foundation's administrative expenses

37. Article I of the General Procedures Governing the Operations of the Foundation defines, in section A (h), "programme support cost" to mean "the costs of administration and management of the programme of activities including programme development and evaluation". The General Procedures, in section A (g), define "programme of activities" to mean "a plan of activities including areas for projects in which the Foundation is to be involved, whether financed partially or wholly by the Foundation, and including pre-programme activities". Also, according to section J of the General Procedures, "the Governing Council (of UNEP) shall consider and approve the programme of activities, and shall allocate from the estimated resources of the Foundation funds to cover the following main categories of expenditure: (a) projects and (b) programme support costs".

38. From the above definition of "programme support costs", it is clear that three concrete functions are envisaged, namely, administrative functions per se; management of the programme of activities; and technical backstopping of the programme of activities. The staff required to discharge all three of these functions will be fully funded from the resources of the Foundation, all of which are extrabudgetary and derived from voluntary contributions. Biennial budget proposals for these three aspects of the Foundation's programme support costs will be prepared by the Administrator and submitted through the Executive Director of UNEP to the Governing Council, together with the comments of the Advisory Committee on Administrative and Budgetary Questions thereon. (The submission to the Advisory Committee will be pursuant to rule 157 of the rules of procedure of the General Assembly.)

39. In addition to the voluntary contributions received by the Foundation, it would have several other sources of income during a given financial period, including:

- i. Economic and Social Council resolution 1914 (LVII) dated 10 December 1974 envisages the Foundation as an executing agency for UNDP-assisted projects in the field of housing finance and housing finance policies. As such, funds would be received for overhead costs from UNDP for projects executed by the Foundation on behalf of UNDP;
- ii. In connexion with seed capital operations, low rates of interest or small service charges would in many cases be made;

- iii. A "commitment charge" is being considered in cases where the principal of a loan is set aside for a recipient and not drawn down;
- iv. Interest would be received on seed capital operations and on investments;
- v. Repayments on loans would be received which would replenish the fund.

40. With respect to the allocation of the annual financial resources available to the Foundation, the Executive Director estimates that they could be allocated as follows:

- 50 per cent for seed capital purposes (see paras. 26-29);
- 30 per cent for technical assistance activities, of which 14 per cent (or 4.2 per cent of the estimated annual financial resources) would be used to meet the technical support costs of those activities (see para. 17);
- 20 per cent for programme support costs, including administrative expenses (see para. 37).

The 20 per cent allocation for programme support costs would, in the opinion of the Executive Director, be necessary to provide the staff required for the discharge of the administrative, management, programme development, control and evaluation functions of the Foundation.

41. With respect to a related administrative matter, the Executive Director plans to present to the Governing Council at its sixth session a review of the organizational structure of the Foundation in the light of experience thus far. In doing so, the Executive Director intends to indicate the staff required by the Foundation to carry out its administrative functions, which will, of course, be held to the minimum possible level. He will also indicate the staffing requirements for the management, substantive support and other activities of the Foundation.

FINANCIAL REGULATIONS AND RULES REQUIRED

42. Should the General Assembly agree to the proposals of the Executive Director of UNEP and wish to affirm paragraph 19 of the plan and programme of operations of the Foundation, which was endorsed by decision 38 (III) of the Governing Council of UNEP, the Secretary-General would recommend to the General Assembly that the changes in the Financial Regulations of the United Nations shown in annex II be adopted. They would be necessary because no authority for external borrowing is contained in the present Financial Regulations of the United Nations and, accordingly, proposed financial regulation 5.10 has been drafted. With respect to the present lending operations of the Foundation, these were previously authorized by decisions of the General Assembly. However, it is highly desirable that the authority now be confirmed and reflected in the Financial Regulations of the Organization. As drafted, financial regulation 9.4, which is set forth in annex II, would regularize

existing lending authority and extend that authority to any funds obtained through the proposed borrowing operations.

43. The financial operations of the Foundation are to be governed by the Financial Regulations and Rules of the United Nations, including any necessary special or clarifying financial rules required to meet the authorized purposes of the Foundation. These will be promulgated by the Secretary-General, including such additional financial rules as may be required to further control the activities under the Financial Regulations described in paragraph 42 and annex II, if they should be approved by the General Assembly. While it would be the intention of the Secretary-General to delegate much of the authority so provided, he would retain custody of the funds of the Foundation and the right to further amend or change the relevant financial rules as conditions may require.

Annex I

TEXT OF A MODEL LOAN AGREEMENT

BETWEEN

THE UNITED NATIONS HABITAT AND HUMAN SETTLEMENTS FOUNDATION

AND

A RECIPIENT COUNTRY

Article I

DEFINITIONS

- 1.01 The term "loan" means the loan provided for in this Loan Agreement.
- 1.02 The term "currency of a country" means such coin or currency as at the time referred to is legal tender for the payment of public and private debts in that country.
- 1.03 The term "loan account" means the account opened by the Foundation on its books in the name of the Borrower to which the amount of the loan is credited.
- 1.04 "Project" means the project or programme for which the loan is granted as described herein and as the description may be amended from time to time by agreement between the Foundation and Borrower.
- 1.05 "Effective date" means the date on which the Loan Agreement shall come into force.
- 1.06 "Lien" includes mortgages, pledges, charges, privileges and priorities of any kind.
- 1.07 "Assets" includes property revenues and claims of any kind.
- 1.08 "Taxes" includes imposts, levies, fees and duties of any nature.

Article II

THE LOAN

- 2.01 The Foundation agrees to lend the Borrower on the terms and conditions set out in this Loan Agreement, a sum equal to which sum shall be an absolute ceiling on the loan commitment of the Foundation under this Loan Agreement.
- 2.02 The Foundation shall transfer the amount of the loan to the Borrower in accordance with the schedule in annex I hereto, which indicates the United States dollar equivalent value and the currency of each payment, to be made at the

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United Nations operational rate of exchange effective on the date of payment and to be deposited to the credit of the Borrower in an account in the _____ . It is understood that such account herein referred to shall be a separate account, maintained exclusively for the deposit of loan disbursements made and for the payment of expenses incurred under this Loan Agreement. It is further understood that necessary arrangements shall be made by the Borrower for the Foundation's access to the records of this account for monitoring and review.

2.03 The Borrower shall pay to the Foundation a commitment charge at the rate of zero per cent per year on the principal amount of the loan not withdrawn from time to time.

2.04 The Borrower shall pay to the Foundation interest at the rate of 3 per cent per year on the outstanding principal of the loan.

2.05 Repayment of principal and interest shall be made annually in accordance with the amortization schedule set out in annex II of this Agreement.

2.06 Payments of principal, interest and other charges to the Foundation by the Borrower under this Loan Agreement shall be made in United States dollars or in other currencies acceptable to the Foundation at the United Nations operational rate of exchange in effect on the date payment is made. All payments to the Foundation shall be made by the Borrower to such accounts as shall be designated from time to time by the Foundation.

2.07 The principal of, and interest and other charges on, the loan shall be paid without deduction for, and free from, any taxes and free from all restrictions, imposed under the laws of the Borrower or laws in effect in its territories. This Loan Agreement shall be free from any taxes that shall be imposed under the laws of the Borrower or laws in effect in its territories on or in connexion with the execution, issue, delivery or registration thereof, and the Borrower shall pay all such taxes, if any, imposed under the laws of the country or countries in whose currency the loan is payable or laws in effect in the territories of such country or countries.

Article III

USE OF PROCEEDS OF THE LOAN

3.01 The Borrower agrees, and undertakes to establish adequate arrangements satisfactory to the Foundation to ensure, that the proceeds of the loan shall be applied exclusively for the purposes and objectives of the project described in annex III of this Loan Agreement.

3.02 Except as the Foundation shall otherwise agree, the goods and services (other than consultant's services) to be financed out of the proceeds of the loan shall be procured on the basis of international competitive bidding or as shall be agreed between the Borrower and the Foundation.

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3.03 The Borrower shall maintain or cause to be maintained records adequate to identify all disbursements made from the account referred to in paragraph 2.02 and such other records as are required by paragraph 4.03.

Article IV

BORROWER'S OBLIGATIONS REGARDING EXECUTION AND MONITORING OF THE PROJECT

4.01 The Borrower shall carry out the project with due diligence and efficiency and in conformity with sound administrative, financial and engineering practices, and shall provide promptly as described in annex III of this Loan Agreement, the funds, facilities, services and other resources required for the purpose.

4.02 The Borrower shall furnish promptly to the Foundation and its agents the reports, plans, specifications, contract documents and work schedules for the project and any material modifications subsequently made therein.

4.03 The Borrower shall maintain or cause to be maintained records adequate to identify the goods and services financed out of the proceeds of the loan, to disclose the use thereof in the project, to record the progress of the project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the ministries, departments or agencies of the Borrower responsible for the carrying out of the project or any part thereof or for the maintenance of all work facilities and equipment related thereto; and shall enable the Foundation and its agents to inspect the project, the goods financed out of the proceeds of the loan and any relevant records and documents.

Article V

PARTICULAR COVENANTS

5.01 The Borrower and the Foundation shall co-operate fully to ensure that the purposes of the loan will be accomplished. To that end the Borrower and the Foundation shall, from time to time, at the request of either party exchange views through their representatives with regard to the performance by the Borrower of its obligations under this Loan Agreement, the operation, administration and financial condition, in respect of the project, of the ministries, departments or agencies of the Borrower responsible for carrying out of the project or any part thereof or for the maintenance of all works, facilities and equipment related thereto, and other matters relating to the purposes of the loan.

5.02 The Borrower shall promptly inform the Foundation in writing of any condition which interferes with or threatens to interfere with the accomplishment of the purposes of the loan or the maintenance of the service thereof or the performance by the Borrower of its obligation under this Loan Agreement.

5.03 The Borrower shall afford all reasonable opportunity for the Foundation and its agents to visit any part of the territories of the Borrower for purposes related to the loan.

Article VI

GENERAL PROVISIONS

6.01 If any event specified below should occur, the Foundation may, by notice to the Borrower, suspend the making of payments under paragraph 2.02. Thereafter should such event continue for a period of 60 days after such notice shall have been given by the Foundation to the Borrower, then at any subsequent time during the continuance thereof, the Foundation, at its option, may declare the principal of the loan and such interest and other charges thereon as may be then outstanding to be due and payable immediately, and upon any such declaration such principal, interest and other charges shall become due and payable immediately, anything to the contrary in this Loan Agreement notwithstanding:

(a) A default shall have occurred in the payment of principal, interest or other charges required under this Loan Agreement,

(b) A default by the Borrower, its employees or agents shall have occurred in the performance of any covenant undertaken by the Borrower in this Loan Agreement.

6.02 Any dispute between the Foundation and the Borrower arising out of or relating to this Loan Agreement which cannot be settled by negotiation or other agreed mode of settlement shall be submitted to arbitration at the request of either Party. Each Party shall appoint one arbitrator, and the two arbitrators so appointed shall appoint the third, who shall be the Chairman. If, within 30 days of the request for arbitration, either Party has not appointed an arbitrator or if within 15 days of the appointment of two arbitrators the third arbitrator has not been appointed, either Party may request the President of the International Court of Justice to appoint an arbitrator. The procedure of the arbitration shall be fixed by the arbitrators, and the expenses of the arbitration shall be borne by the Parties as assessed by the arbitrators. The arbitral award shall contain a statement of the reasons on which it is based and shall be accepted by the Parties as the final and binding adjudication of the dispute.

6.03 Any modification of this Agreement shall be by mutual consent of the Parties and shall be in writing.

6.04 The convention on the privileges and immunities of the United Nations shall apply to the Foundation, its assets and agents in respect of all actions and transactions pursuant to the Loan Agreement. Nothing contained in this Agreement shall be deemed a waiver, express or implied, of any immunity from suit or legal process, or of any privilege, exemption or other immunity enjoyed or which may be enjoyed by the Foundation, whether pursuant to the Convention of the Privileges and Immunities of the United Nations or any other convention, law or decree of an international or national character or otherwise.

6.05 Until written notice of a change in address is served by registered mail by either Party upon the other, wherever hereunder any notice or other advice is required to be given, the same shall be deemed to have been sufficiently given when,

if given by the Borrower to the Foundation, it shall be addressed to the Administrator, United Nations Habitat and Human Settlements Foundation, P.O. Box 30552, Nairobi, Kenya, and sent by registered mail; and when, if given by the Foundation to the Borrower, it shall be addressed to the Minister of Finance, Maseru, Lesotho, and sent by registered mail.

In witness thereof, the Parties hereto have affixed their signatures on the dates indicated beneath their respective signatures.

For the United Nations Habitat
and Human Settlements Foundation

For the Government of

Date _____

Date _____

Annex II

POSSIBLE ADDITIONAL FINANCIAL REGULATIONS RELATING TO THE UNITED
NATIONS HABITAT AND HUMAN SETTLEMENTS FOUNDATION

Regulation 5.10: Under rules established by the Secretary-General, borrowings may be incurred for the authorized purposes of the United Nations Habitat and Human Settlements Foundation from Governments and governmental agencies, development banks and other intergovernmental organizations, and private institutions and other sources, provided that:

(a) The net borrowings outstanding at any time under this regulation shall not exceed limits established by the Secretary-General, with due regard to the maintenance of adequate reserves to secure such borrowings and to the proper functioning of the Foundation;

(b) The principal of any borrowings under this regulation and any interest or other charges thereon shall only be payable from the resources of the Foundation, and no lender shall have any claim against the United Nations or any of its other assets. Particular resources of the Foundation may be committed as security for the repayment of borrowings and the charges thereon.

Regulation 9.4: Under rules established by the Secretary-General, loans may be made from the resources of the United Nations Habitat and Human Settlements Foundation, including those borrowed pursuant to regulation 5.10, in implementation of the approved programmes of the Foundation.
