

Public Disclosure Authorized

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LOAN NUMBER 4739-IRN

Loan Agreement

(Urban Upgrading and Housing Reform Project)

between

ISLAMIC REPUBLIC OF IRAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated July 17, 2004

Public Disclosure Authorized



LOAN NUMBER 4739-IRN

LOAN AGREEMENT

AGREEMENT, dated July 17, 2004, between ISLAMIC REPUBLIC OF IRAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter from the Borrower, dated January 18, 2004, describing the Borrower's program of actions, objectives and policies designed to facilitate the transition of the Borrower's housing sector into a market-led sector, and improve housing conditions for low and moderate income households (the Program), and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower has requested the Bank's support in the execution of the Program through a series of loans, over a period of approximately twelve (12) years, to be utilized by the Borrower in the implementation of the Program, of which the project described in Schedule 2 to this Agreement (the Project) forms the first phase; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement; and

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "CBI" means the Central Bank of the Islamic Republic of Iran;
- (b) "CBO" means a community-based organization;
- (c) "Environmental Plan and Manual" means the Environmental Management Plan and the Environmental Guidelines Manual furnished to the Bank in November 2004 setting forth procedures and guidelines to assess Sub-projects for purposes of ensuring compliance with environmental and social safeguard standards, as the same may be amended from time to time by agreement of the Borrower and the Bank;

- (d) “EUC” means an Executive Upgrading Committee operating at the local level and chaired by the governor or the deputy governor of a province in the Borrower’s territory;
- (e) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;
- (f) “HUDO” means the Housing and Urban Development Organization representing MHUD at the provincial level;
- (g) “ISC” means the Inter-Ministerial Steering Committee to be maintained in accordance with the provisions of paragraph A.2 of Schedule 5 to this Agreement;
- (h) “MEAF” means the Borrower’s Ministry of Economic Affairs and Finance or any successor thereto;
- (i) “MHUD” means the Borrower’s Ministry of Housing and Urban Development or any successor thereto;
- (j) “MOI” means the Borrower’s Ministry of Interior or any successor thereto;
- (k) “MPO” means the Borrower’s Management and Planning Organization;
- (l) “NGO” means a non- governmental organization;
- (m) “NLHO” means the National Land and Housing Organization within MHUD;
- (n) “Participating Municipality” means a municipality of the Borrower eligible to participate in the implementation of Part A.1 of the Project in accordance with criteria set forth in the Project Operations Manual;
- (o) “PMU” means the Project Management Unit to be maintained in accordance with the provisions of paragraph A.3 of Schedule 5 to this Agreement;
- (p) “Project Operations Manual” means the Borrower’s Project operations manual furnished to the Bank on March 25, 2004, and to be maintained in accordance with the provisions of paragraph C of Schedule 5 to this Agreement;
- (q) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;
- (r) “Sub-Project” means an urban upgrading project whose objectives include the execution of civil works under Part A.1 of the Project, the carrying out of community enabling programs or the carrying out of municipal capacity building programs, all in accordance with criteria set forth in the Project Operations Manual;
- (s) “Technical Unit A” means the Technical Unit to be established, and thereafter maintained, in accordance with the provisions of paragraph A.4 of Schedule 5 to this Agreement;

(t) “Technical Unit B” means the Technical Unit to be established, and thereafter maintained, in accordance with the provisions of paragraph A.4 of Schedule 5 to this Agreement;

(u) “Technical Units” means, collectively, Technical Unit A and Technical Unit B; and

(v) “UDRO” means the Urban Development and Rehabilitation Organization within MHUD.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to eighty million United States Dollars (US\$80,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project open and maintain in Dollars a separate special deposit account in a commercial bank in the territory of the Borrower, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2009, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay Commission on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Commission Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) “Commission Period” means the initial period from and including the date of this Agreement to, but excluding, the first Commission Payment Date occurring thereafter, and after the

initial period, each period from and including a Commission Payment Date to, but excluding the next following Commission Payment Date.

- (ii) “Commission Payment Date” means any date specified in Section 2.07 of this Agreement.
- (iii) “LIBOR Base Rate” means, for each Commission Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Commission Period (or, in the case of the initial Commission Period, for value the Commission Payment Date occurring on or next preceding the first day of such Commission Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each Commission Period: (A) three fourth of one percent (3/4 of 1%) (B) minus (or plus) the weighted average margin, for such Commission Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread of each Commission Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the commission rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the commission rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the commission rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Commission and other charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the

Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, environmental and urban upgrading and housing reform practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement, the Project Operations Manual and the Environmental Plan and Manual.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements all in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year, as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one (1) year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph D (b)(i) of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Bank not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial

Monitoring Report shall be furnished to the Bank not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE VI

Termination

Section 6.01. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Economic Affairs and Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Economic Affairs and Finance
Davar Avenue
Tehran
Islamic Republic of Iran

Facsimile:

98 21 39 01 033; or
98 21 39 10 024

For the Bank:

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

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Tehran, Islamic Republic of Iran, as of the day and year first above written.

ISLAMIC REPUBLIC OF IRAN

By /s/ Safdar Hosseini

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Christiaan Poortman

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Works	48,380,000	75%
(2) Goods, equipment and vehicles	2,180,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for items procured locally
(3) Consultants' services and training:		
(a) Consultants domiciled within the Borrower's territory	20,000,000	88% of local expenditures
(b) Other consultants	5,770,000	95% of foreign expenditures
(4) Fee	800,000	Amount due under Section 2.04 of this Agreement
(5) Unallocated	<u>2,870,000</u>	
TOTAL	<u>80,000,000</u> =====	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$2,000,000, may be made in respect of Categories (2), (3)(a) and (3)(b) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after March 31, 2004.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) works costing less than \$500,000 equivalent per contract, except for the first two (2) contracts; (b) goods costing less than \$250,000 equivalent per contract, except for the first two (2) contracts; (c) services of individual consultants under contracts costing less than \$40,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (e) training, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project, which forms the first phase of a three-phase adaptable program covering a period of twelve (12) years, are to assist the Borrower in: (i) instituting an integrated approach to upgrading informal settlements; and (ii) initiating housing sector reform and putting in place the requisite systems, frameworks and human and institutional capabilities required therefor.

The Project consists of the following Parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Urban Upgrading

1. Carrying out an urban upgrading program consisting of the design, implementation and supervision of Sub-projects and capacity building activities, together with the preparation of city development strategies, and feasibility and design studies.
2. Design of urban upgrading programs for the second phase of the Program, if any, including the preparation of environmental and social assessments, and feasibility studies.
3. Development of funding arrangements for urban upgrading activities to be carried out under the second and third phases of the Program, if any, to ensure an integrated and sustainable approach to urban upgrading.

Part B: Housing Reform

1. Strengthening the institutional capacity of MHUD in the area of housing and land management through the development of methodologies, systems, procedures and institutional designs for monitoring housing and land markets, estimating demand and providing support for municipal decision making.
2. Assisting in the development of a housing finance market through the provision of support in assessing and managing liquidity risk associated with contractual housing savings schemes, and the revision of the preferential regulatory treatment of housing finance institutions.
3. Streamlining housing subsidies through the establishment of a comprehensive system to monitor and evaluate housing subsidies, and develop demand-side housing subsidy instruments.

Part C: Project Management

Support, through the provision of goods, including office equipment, consultants' services and training, to MHUD in the areas of Project management and Project implementation, monitoring and evaluation.

* * *

The Project is expected to be completed by June 30, 2009.

SCHEDULE 3
Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal</u> <u>(Expressed in Dollars)*</u>
On each January 15 and July 15	
beginning January 15, 2010 through January 15, 2021	3,335,000
and on July 15, 2021	3,295,000

** The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.*

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$2,000,000 equivalent per contract, up to an aggregate not to exceed \$70,000,000 equivalent, and goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate not exceed \$2,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and with procedures acceptable to the Bank. Said procedures shall ensure, *inter alia*, that: (i) the format of the bidding documents shall be consistent with the Bank’s standard bidding documents; (ii) tenders shall be advertised in local newspapers of wide circulation with a bid submission deadline of 28 days from the date of advertisement; (iii) government-owned enterprises shall be subject to the same bid and performance security requirements as other bidders and shall not be eligible to bid for contracts unless they: (a) are legally and financially autonomous; (b) operate under the provisions of the Borrower’s commercial law; and (c) are not selected by the supervising or reporting ministry or governmental agency; (iv) all bids shall be submitted in sealed envelopes and shall be accepted whether mailed or hand-carried; (v) all bids shall be opened at the same time in public; (vi) all bids shall be opened on the day on which the deadline for bid submission falls, or very soon thereafter; (vii) prospective bidders may submit two (2) envelopes provided said envelopes shall be opened at the same time; (viii) all bids shall be evaluated on the basis of price and other criteria disclosed in the bid documents, and no provision for preferential treatment for national companies shall apply; (ix) contracts shall be awarded to the lowest evaluated responsive bidder; (x) no bidder

shall be requested or permitted to modify his, her or its bid after the bid's closing date shall have elapsed; and (xi) price negotiations with the lowest evaluated responsive bidder shall be prohibited.

2. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Minor Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. Direct Contracting

Works of an emergency nature estimated to cost less than \$10,000 equivalent per contract, up to an aggregate not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to: (i) each contract for works estimated to cost the equivalent of \$500,000 or more; (ii) each contract for goods estimated to cost the equivalent of \$250,000 or more; (iii) the first two (2) contracts for works estimated to cost less than \$500,000 equivalent; and (iv) the first two (2) contracts for goods estimated to cost less than \$250,000.

(b) Without prejudice to the provisions of paragraph 2 (a) of this Part D, with respect to the first two (2) contracts for goods to be procured in accordance with the procedures referred to in paragraph 2 of Part C above and the first two (2) contracts for works to be procured in accordance with the procedures referred to in paragraphs 3 and 4 of Part C above, the following procedures shall apply:

- (i) prior to the selection of any supplier or execution of any contract under shopping procedures, and the selection of any contractor under the procurement of minor works and/or the direct contracting procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of this Section II.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Specialized advisory services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

3. Single-Source Selection

In exceptional cases, and wherever justified in the context of the overall interests of the Borrower and the Project, single-source selection of consultants for services estimated to cost less than \$40,000 equivalent per contract may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank.

2. Prior Review

With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; and (ii) each contract for the employment of individual consultants procured under Part C.2 or Part C.3 of Section II of this Schedule estimated to cost the equivalent of \$40,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

A. Project Implementation and Coordination

1. The Borrower shall vest in MHUD the overall responsibility for the carrying out of the Project. MHUD shall operate under the oversight of ISC, and shall be supported in the carrying out of its responsibilities by PMU. MHUD shall carry out Part A of the Project in coordination with UDRO and Part B in coordination with NLHO, and shall directly carry out Part C of the Project.

2. The Borrower shall maintain ISC with functions, satisfactory to the Bank. ISC's membership shall include representatives of MOI, MEAF, CBI, MPO and MHUD. The responsibilities of ISC shall include, *inter alia*: (i) providing advice on the reform strategy for the housing sector and the appropriate design of the Program; (ii) coordinating Project-related decisions; and (iii) removing impediments to the timely implementation of the Project.

3. The Borrower shall maintain PMU, within MHUD, with functions, staffing and resources satisfactory to the Bank. PMU, *inter alia*, shall be responsible for: (i) the procurement and financial management processes under the Project, including the maintenance of accounting records, preparation of Financial Monitoring Reports and the submission of said reports to the Bank; (ii) monitoring the Project's implementation and the auditing of the Project's accounts; and (iii) furnishing the Bank with bi-annual investment program proposals and the quarterly progress reports referred to under paragraph D (b) (i) of this Schedule.

4. PMU shall be assisted in the carrying out of its responsibilities by Technical Unit A to be established, not later than July 31, 2004, and thereafter maintained, in close coordination with UDRO and Technical Unit B, to be established, not later than July 31, 2004, and thereafter maintained, in close coordination with NLHO. The qualifications and experience of core staff of the Technical Units, together with the terms and conditions of their employment, shall be satisfactory to the Bank. The main responsibilities of Technical Unit A and Technical Unit B shall consist in assisting in the implementation of Parts A and B of the Project, respectively, including (i) the management and supervision of day-to-day Project activities, (ii) the submission to PMU of quarterly Project progress reports for consolidation and onward submission by PMU to the Bank; and (iii) the monitoring and evaluation of the Project's developmental impact.

B. Part A.1 of the Project

1. The Borrower shall ensure that, except as the Bank shall otherwise agree: (a) Sub-Projects shall be identified and prepared by Participating Municipalities under the auspices of the respective EUC and in accordance with the procedures and other provisions set forth or referred to in the Project Operations Manual; (b) MHUD shall be responsible for executing Sub-projects; and (c) the respective HUDO shall designate a Project manager, together with adequate support staff, to assist the Participating

Municipality, NGO or CBO, as the case may be, in the implementation of its responsibilities under Part A.1 of the Project.

2. Unless otherwise agreed by the Borrower and the Bank, no expenditures for works required for a Sub-Project shall be eligible for financing out of the proceeds of the Loan allocated from time to time to Part A.1 of the Project, unless the Borrower shall have carried out, in accordance with the Environmental Plan and Manual, an environmental assessment for the Sub-Project, and shall have undertaken processes and activities to mitigate any negative environmental impacts of such Sub-Project in accordance with the Environmental Plan and Manual, together with evidence, satisfactory to the Bank, that the Sub-Project shall not involve any land expropriation or involuntary resettlement of the local population and/or businesses.

C. Project Operations Manual

The Borrower shall maintain, in form and substance satisfactory to the Bank, the Project Operations Manual which, *inter alia*: (i) sets forth the respective roles and responsibilities of the different ministries and agencies of the Borrower involved in the implementation of the Project; and (ii) includes the Environmental Plan and Manual, the accounting, financial reporting and auditing arrangements under the Project, and the monitoring and evaluation procedures to be followed under the Project.

D. Progress Reports and Mid-Term Review

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set out in Schedule 7 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank (i) commencing January 31, 2005, quarterly reports on the progress achieved in the carrying out of the Project; and (ii) not later than October 31, 2006, a report, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by December 31, 2006, or such later date as the Bank shall request, the report referred to in subparagraph (b) (ii) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1), (2), (3) (a) and (3)(b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means the amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$15,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for

eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 7

Performance Indicators

The performance indicators for the Project shall include the following said indicators being subject to modifications by agreement between the Borrower and the Bank:

- A. Outcome/Impact Indicators:
 - 1. Increase in service coverage and improved access to basic infrastructure services in upgraded settlements.
 - 2. Increase in the level of satisfaction of households in upgraded settlements with their living conditions.
 - 3. Improved municipal capacity to plan development, coordinate investments and community initiatives within the jurisdiction of Participating Municipalities.
 - 4. Public land in the jurisdiction of Participating Municipalities has been allocated in a transparent manner, and in response to a market demand.
 - 5. A system for introducing demand-side housing subsidies has been established.
 - 6. Reduced liquidity risk associated with loan-linked housing savings schemes thus maintaining a positive net treasury position.
 - 7. Increased efficiency of the primary housing finance markets with active participation of private banks as demonstrated by mortgage loans issued by at least six (6) banks, of which three (3) will be private.
- B. Output Indicators:
 - 1. Studies for the preparation of community-enabling, and urban and institutional upgrading programs have been carried out.
 - 2. Upgrading Sub-Projects have been carried out in poor neighborhoods.
 - 3. City development strategies have been completed with broad participation in at least three (3) participating cities.
 - 4. Number of municipal employees trained in the Participating Municipalities.
 - 5. Pilot community-led Sub-projects completed, documented and disseminated within the territorial jurisdiction of the Participating Municipalities.
 - 6. Prepared feasibility studies for Sub-Projects to be implemented during the second Phase of the Program, if any.
 - 7. The Borrower has revised existing building codes and standards, and put such revisions into effect.
 - 8. The Borrower has established and put into effect a transparent system to release public land systematically and in response to market demand for urban expansion in at least three (3) participating cities.

9. The Borrower has adopted an appropriate framework, and developed asset-liability management models, for assessing and monitoring liquidity risks and contingent liabilities associated with the existing loan-linked contractual housing savings schemes.
10. The Borrower has eliminated the preferential regulatory treatment for Bank Maskan for all market-based transactions.
11. The Borrower has established an information system, together with appropriate data, on housing subsidies collected on a regular basis, and has produced and disseminated reports thereon annually.
12. The Borrower has put into effect a system to introduce instruments for demand-side housing subsidies.
13. The Borrower has established and put into effect a system to monitor and collect data on national housing and land.