

# Evaluation of the Experimental Reimbursable Seeding Operations



**ERSO**

Innovative financing solutions for  
affordable housing and infrastructure

# **Evaluation of the** Experimental Reimbursable Seeding Operations

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Evaluation of the Experimental Reimbursable Seeding Operations

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Produced by Monitoring and Evaluation Unit  
United Nations Human Settlements Programme (UN-Habitat)  
P. O. Box 30030, 00100 Nairobi GPO KENYA  
Tel: 254-020-7623120 (Central Office)  
[www.unhabitat.org](http://www.unhabitat.org)

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Author: Johan Hyltenstam  
Editor: UNON Conference Services  
Design & Layout: Irene Juma

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## ABBREVIATIONS AND ACRONYMS

AMAL	Affordable Mortgage and Loan Corporation
ARBAN	Association for Realisation of Basic Needs
BEA	Bank Enterprise Award Programme
CBO	Community Based Organisation
CD	Certificate of Deposit
CDC	Community Development Corporations
CDFI	Community Development Financial Institution
CPR	Committee of Permanent Representatives
CRA	Community Reinvestment Act
DED	Deputy Executive Director, UN-Habitat
DFID	Department for International Development of the United Kingdom of Great Britain & Northern Ireland
ED	Executive Director, UN-Habitat
ERSO	Experimental Reimbursable Seeding Operations
GC	Governing Council
HFHI	Habitat for Humanity International
IAS	International Accounting Standards
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Financial Institutions
IFRS	International Financial Reporting Services
KfW	Kreditanstalt für Wiederaufbau
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
M&E	Monitoring & Evaluation Unit, UN-Habitat
MEII	Middle East Investment Initiative
MFI	Micro Financial Institutions
MLI	Multilateral Lending Institutions
MTSIP	Medium-Term Strategic and Institutional Plan
NGO	Non-Governmental Organisation
OPIC	Overseas Private Investment Corporation
PRODEL	Fundación para la Promoción de Desarrollo Local (Program for Local Development)
PSD	Programme Support Division
SAKAN	Palestinian Affordable Housing Association
SDI	Slum Dwellers International
SIDA	Swedish International Development Cooperation Agency
SMC	Steering and Monitoring Committee of ERSO
SP4/HSFD	Special Programme 4, Housing and Settlement Financing Division
SUF	Slum Upgrading Facility
TA	Technical Assistance
ToR	Terms of Reference
UFBT	Urban Finance Branch Team
UGAFODE	Uganda Agency for Development Limited

UN	United Nations
UNCDF	United Nation Capital Development Fund
UNDP	United Nations Development Programme
UN-Habitat	United Nations Human Settlements Programme
UNON	United Nations Office at Nairobi
WSTF	Water and Sanitation Trust Fund



## EXECUTIVE SUMMARY



Local residents outside their home in Kathmandu, © Nepal IRIN/ Nareesh Newar

### I. INTRODUCTION

1. The United Nations Human Settlements Programme (UN-Habitat) is responsible for promoting sustainable urban development, and is the lead United Nations agency responsible for attaining the target set in the Millennium Development Goals of improving the lives of 100 million slum-dwellers by the year 2020. One means of achieving that target is using innovative approaches to encourage Habitat Agenda partners to engage in low-income housing projects and schemes that Governments, non-governmental organizations and community-based organizations can use to reach a greater number of low-income households.
2. The Experimental Reimbursable Seeding Operations (ERSO) programme was designed and implemented in response to UN-Habitat Governing Council resolution 21/10 of 20 April 2007, in order to increase sustainable financing for affordable and social housing and infrastructure during a four-year experimental pilot period, 2007–2011. The programme complements the Slum Upgrading Facility Programme and other innovative financial mechanisms such as the Water and Sanitation Trust Fund. What distinguishes ERSO is that it is a loan programme, and some of its activities are reimbursable, whereas other innovative financing arrangements are grant programmes.
3. The overall objectives of the ERSO programme are:
  - (a) To field-test experimental and reimbursable seeding operations and other innovative operations for financing the urban poor for housing, infrastructure and upgrading through community groups, including where there is an expectation of repayments mobilizing capital at the local level; and
  - (b) To strengthen the capacity of local financial and development actors to carry out those operations and to support the capacity of UN-Habitat to enhance those operations.
4. The evaluation described in the present report was mandated by the Governing Council of UN-Habitat in paragraph 7 (i) of its resolution 21/10, in which it decided that an evaluation would be conducted at the end of the experimental activities in 2011. Its

strategic intent is to provide information to guide any decision by the Governing Council at its twenty-third session on potential future applications of ERSO.

5. The objective of the evaluation is to assess progress on implementation of the ERSO programme during the experimental pilot period, and to suggest alternatives for more effective implementation of future activities. The evaluation was conducted during the period from October 2010 to February 2011 by an independent external evaluator, Mr. Johan Hyltenstam. It assessed the ERSO programme design, outputs, expected outcomes and preliminary impacts. The methodology, key findings, lessons learned and recommendations are highlighted in the executive summary and detailed in the main report.

## II. METHODOLOGY

6. The evaluation used a variety of methods, including in-depth review and analysis of relevant programme documents; interviews with key stakeholders, face-to-face, by telephone and e-mail; a questionnaire, and field visits to UN-Habitat Headquarters and projects in selected countries. The evaluation assessed ERSO programme design, processes and implementation. A risk analysis was also undertaken, including the resource implications of the proposed mechanisms in ERSO and other activities tested during the experimental period. The evaluation was guided by the criteria of relevance, effectiveness, efficiency, sustainability and impact. It considered stakeholder participation and contributions vital. More than 50 individual stakeholders, including members of the Committee of Permanent Representatives (CPR), the Steering and Monitoring Committee (SMC), donors and the Medium-Term Strategic and Institutional Plan (MTSIP) Steering Committee members and relevant staff were interviewed and/or contributed their views to the evaluation in other ways.
7. The evaluation faced constraints including inability to meet all key stakeholders; low response rate to the questionnaire for comparative analysis with other United Nations lending programmes; timing of impact difficulties in the evaluation; and lack of standards for international best practice for comparative purposes in this new and innovative area of finance. The huge geographical distances and the limited time available for the evaluation made it impossible for the evaluator to meet all the key stakeholders in person and relevant actors involved in the ERSO programme. Meetings were limited to Nairobi and the project sites in the Occupied Palestinian Territory and Uganda. This limitation was, however, minimized by reaching other key stakeholders by phone and/or e-mail.
8. There was limited response to the questionnaire used to collect information on other lending programmes in the United Nations system. The Terms of Reference of the evaluation requested a review of other lending programmes and operations within the United Nations system, such as the United Nations Capital Development Fund (UNCDF) and the International Fund for Agricultural Development (IFAD), for comparative analysis of aims, organizational structure, staffing and operations. Although these organizations were contacted and some telephone discussions held, they did not respond to the survey questionnaire, making a full comparative analysis impossible.
9. It is too early to assess the full developmental impact of the loans made under the ERSO programme. The ERSO loans were funded in the first quarter of 2010 and they have been outstanding for only one year. As is usual for urban upgrading or home lending, the loans will be outstanding for periods of three and five years (for urban upgrading and neighbourhood improvement construction)

or three to ten years (for microhousing and micromortgage lending). As none of the projects to which ERSO has lent money has yet been completed, it is too soon to assess the full developmental impact of the ERSO programme. Instead, the evaluation limited its assessment to preliminary impacts of ERSO in terms of financing affordable housing for poor households, and financial investments concluded during the experimental period. It is recommended that UN-Habitat undertake a more detailed analysis of the target population served when more extensive data are available.

10. It was not possible to carry out a full comparative analysis of UN-Habitat ERSO operations with international best practice on the delivery of finance for low-income housing and infrastructure, as requested in the Terms of Reference. This is a relatively new sector, with UN-Habitat taking on a catalytic role, and there is thus no broadly accepted international standard for this type of lending. Developing such a standard would require far more time, resources and research than were allocated to this evaluation.

### III. KEY FINDINGS AND CHALLENGES

11. The findings are presented systematically and cover the areas of programme design; implementation arrangements and processes; best practices and innovative finance; relevance and effectiveness, financial innovativeness, in addition to the technical and financial risks of the ERSO programme.

#### A. Design and Implementation Arrangements of ERSO

12. The decision to establish ERSO was taken in 2007 and since then relevant structures and implementation arrangements have been established and put into operation. A trust fund was established for implementing the experimental lending activities, and received donor contributions totalling USD 3,629,597. A Steering and Monitoring Committee of 12

persons, including members of the Committee of Permanent Representatives (CPR) and experts nominated by Member States, was established to guide the implementation of the programme. The programme worked with a number of key partners, including domestic banks, microfinance institutions and international financial institution partners such as the Overseas Private Investment Corporation (OPIC), the International Finance Corporation (IFC), the Department for International Development of the United Kingdom of Great Britain and Northern Ireland (DFID) and the Swedish International Development Cooperation Agency (SIDA). A working operations manual describing the processes for different reimbursable seeding operations was developed, revised and approved by CPR and SMC.

13. There were concerns raised about the governance of the ERSO Trust Fund. The role and independence of SMC is not clear, and its functioning would be improved by the introduction of specific committees, such as for audits, investment and personnel. The oversight by the CPR Working Group on ERSO was effective, but should have been introduced earlier in the process.
14. The evaluation notes that the ERSO programme was not preceded by a documented feasibility study of how to streamline the banking aspects of the programme into the UN-Habitat administration; rather, the approach was to proceed directly to implementation using existing resources. Initially, the ERSO programme was coordinated by a small in-house management team supported by part-time technical backstopping consultants from Swedbank of Sweden, and was reviewed from time to time by volunteer experts. This type of learning-by-doing strategy can work but experience shows that carrying out a preliminary feasibility study, and including full-time professionals with technical lending expertise on the staff from the outset of such a programme, enhances its efficiency.

15. There was a delay in recruiting senior staff with long-term banking experience to supervise and direct the implementation of the lending operations component of the programme. Although UN-Habitat managed gradually to increase staffing, the delay in recruitment resulted in a capacity gap in financial structuring, credit review and loan documentation expertise, with the result that the programme did not succeed in structuring, closing and funding loans until March 2010, just one year before it ended. Implementation of post-closing loan administration functionalities was also not introduced until late in the programme. Overall, there was a consensus among the stakeholders interviewed that the design and implementation arrangements were not optimal for the ERSO programme to achieve a high level of efficiency. This was largely due to the limited human resources and funds made available to ERSO internally, and the continuing administrative burden of fitting a lending programme into the UN-Habitat grant accounting system. Implementation of all types of development finance programmes benefit from a balanced approach that incorporates both developmental expertise and lending expertise. The implementation of the ERSO programme achieved this, but with some delays.
16. The findings on lending programmes within the United Nations system are that the lending programmes of UNCDF and IFAD have a similar strategy and structure. IFAD works exclusively in the agriculture sector, but UNCDF has operations in the field supporting microlending, which may include a percentage of microlending for affordable housing, with a strategy comparable to that of the ERSO programme. UNCDF is also launching an initiative on municipal finance and infrastructure finance.

## **B. Partnership Arrangements with National Governments and Local Institutions**

17. ERSO loans have been made to institutions in Nepal, Nicaragua, the Occupied Palestinian Territory, Uganda and the United Republic of Tanzania. Some interviewees acknowledged that UN-Habitat gained experience and established relationships with local authorities, urban poor organizations and domestic financial institutions. As such, its catalytic role in lending can perform services and meet needs in ways that international financing institutions cannot, and serve as a bridge for international and domestic financial institutions to reach underserved markets with great need of affordable housing and basic services.

## **C. Best Practice and Innovative Financing**

18. Significant progress had been made by the end of the programme in integrating developmental efforts with financially sound banking practices to produce a solid investment track record and innovative financing structures over the experimental period of ERSO.

## **D. Relevance, Efficiency and Effectiveness of the ERSO Programme**

19. There was a strong consensus among stakeholders<sup>1</sup> that the ERSO programme was very relevant as a mechanism for assisting developing countries with the provision of increased resources for affordable housing and related infrastructure. The ERSO programme focused on loans of varying types designed to deliver improved housing and basic services for underserved families by identifying, preparing and influencing innovative reimbursable operations. The findings of the evaluation indicate that there were challenges in staff-

<sup>1</sup> From in-depth interviews and the questionnaire.

- ing, resources and having the right processes in place at the inception of the programme, which compromised efficiency and effectiveness.
20. With regard to the programme performance indicators, which were developed with targets in eight areas<sup>2</sup> at the time when the original programme was prepared and adopted within UN-Habitat in April 2008, the evaluation concludes that seven target indicators were achieved. The fundraising target however, was not achieved. The target for donor contributions had been USD 15 million and total funding received was USD 3,629,597, with the Government of Spain as the main contributor (79 per cent). The evaluation notes, however, that potential funding sources may have been waiting to assess performance of the programme before providing additional funding, and that the recent scarcity of funding for development assistance has affected all UN-Habitat programmes. The evaluation further notes that the indicators appear ill-adapted to measuring the intrinsic value of an innovative financial lending programme.
  21. Most interviewees believed the ERSO programme to be highly effective and that funds had been used efficiently. To date, ERSO has disbursed five loans, totalling USD 2.75 million or 76 per cent of donated funds. An amount equal to USD 550,000 (15 per cent of total funding or 20 per cent of disbursed funds)<sup>3</sup> will be set aside as loan reserves to cover credit and foreign exchange risks. The ERSO loan portfolio is performing according to schedule. Loan repayments have already begun on four of the five loans and the repayment rate is currently 100 per cent.
  22. With regard to international best practice delivery of finance for low-income housing, the evaluation finds that the ERSO programme has achieved best practice.<sup>4</sup> Most interviewees stated that the ERSO programme had had innovative financial impacts. However, interviewees found it difficult to comment on the extent of the developmental impact of the programme, because the programme had been fully invested for only one year. Nevertheless, based on field visits and project partner interviews, the preliminary results of projects in Nepal, Nicaragua and the Occupied Palestinian Territory already show that low-income<sup>5</sup> households have benefitted from those projects. The amount of investment stimulated by the USD 2.75 million of ERSO funding is calculated<sup>6</sup> to reach over USD 500 million.<sup>7</sup>
  23. Regarding outcomes, the information available indicates that ERSO has potential to act as a catalyst for creating demand among financial institutions to partner UN-Habitat for low-income housing finance. Being a pilot programme, however, ERSO has not built the necessary administrative support and staffing capacity to scale up the programme.

#### **E. Financial Innovativeness of ERSO**

24. In terms of innovation, the evaluation observed that the ERSO programme had evolved over time. Initially, it experimented with offering very low interest rate loans as

<sup>2</sup> Projected budget 2008–2011 contains: number of ERSO operations in the process of implementation, average ERSO contribution per operation, domestic investments/savings mobilized per operation, number of low-income households served, households served under ERSO within the range of income deciles defined per country operation, strengthened capacity of domestic financial institutions in affordable housing finance, strengthened capacity of domestic institutions and development actors in affordable housing delivery, infrastructure provision and upgrading.

<sup>3</sup> The balance is due to UN-Habitat overhead costs.

<sup>4</sup> See first footnote on the previous page.

<sup>5</sup> As per beneficiary income data presented by borrowing partners.

<sup>6</sup> Calculation is based on the assumption that the projects would not have been settled without the initial ERSO programme investments.

<sup>7</sup> The estimated total project cost for all five ERSO programme loan projects.

a mechanism for attracting private sector partner investment in low-income housing and community upgrading. Later transactions experimented with the creation of new financial products (combined community and municipal loans to bring infrastructure to low-income communities) in Nicaragua, for example and leveraging of international financial institution investment in affordable housing and micromortgage lending in the Occupied Palestinian Territory.

#### F. Technical and Financial Risks

25. The ERSO programme operational manuals have been developed over the experimental period to assess the technical and financial risks of lending activity. The programme successfully implemented a cash management system and a manual system of loan administration. There are, however, several administrative back office issues that may impair any future growth in the operation of the ERSO programme, if they are not resolved. These include the need to create specific portfolio accounting, automate reconciliation of expected and actual payments received, and augment treasury management capabilities for a multi-currency loan portfolio in highly volatile emerging markets currencies.

#### IV. KEY CONCLUSIONS

26. The evaluation has shown that the concept of the ERSO programme is relevant, with stakeholders feeling that some form of catalytic developmental lending for housing and basic services should be linked to the UN-Habitat work programme. Most stakeholders consider the ERSO programme successful within the given funding and human resources constraints. The programme has reached an underserved population, with beneficiaries ranging from lower-income salaried workers in the Occupied Palestinian Territory with no access to affordable housing, to very low-income informal income households earning

from USD 2-4 per day, now gaining access to small loans for housing improvement in Nepal and Nicaragua.

27. The evaluation also concluded that, with adequate institutional and administrative support, UN-Habitat, through ERSO and in partnership with governmental and non-governmental organizations, could play a complementary catalytic role and offer financing options for reaching low-income households, a niche market that is as yet under-represented. The lack of a feasibility study on how to run the ERSO programme within the UN-Habitat bureaucracy, however, led UN-Habitat to underestimate the resources required to implement a lending operation programme within its administration, and implementation of the programme suffered as a result. The programme currently does not have adequate staff or systems to expand without additional investment and support.
28. It is clear that management has run the trust fund in accordance with the operational manual. The ERSO loan portfolio is performing according to schedule. ERSO projects have been performed in line with best practice in comparison with the ranking list prepared by FinMark Trust, a leading firm monitoring best practice in this field. As regards institutional collaboration, ERSO projects and loans have been cushioned through funding collaborations with domestic banks, microfinance institutions and international financial institution partners. There have, however, been challenges, including limited funding, lack of a feasibility study at the start of the programme and inadequate in-house capacity to manage a loan programme.

#### V. LESSONS LEARNED

1. **Use of Appropriate Technical Expertise**
29. The successful implementation of projects to finance urban development and housing depends heavily on having a sufficient level of

banking expertise on board from the design stage. This lesson can generally be applied to other interventions aimed at creating revolving funds and other types of investment in low-income community development.

## 2. Financial Product Development for Strong Financial Institutions

30. Experimentation with various forms of financing structures and flexible funding arrangements that go beyond low-interest loans or working capital loans can allow an innovative finance programme to develop a variety of products, and will increase the effectiveness of a programme through a more diverse loan portfolio. This lesson can normally be applied to other interventions in this field.

## 3. Support Research, Innovation and Dissemination of Experiences

31. If widely disseminated, lessons learned both from UN-Habitat global research and from various pilot affordable housing programmes can support the replication and scaling-up of housing and neighbourhood upgrading for the urban poor. Disseminated information should also support new efforts to marry low-cost building technologies and financial services.

## 4. Explicit Targets for Programme Beneficiaries

32. The ERSO programme was experimental, and thus developed various models of interventions according to country and housing needs. These included targeting underserved beneficiaries in politically challenged areas, and informally employed urban poor families, and peri-urban development designed to cross-subsidize low-income populations by selling 25 per cent of units to middle-class buyers. In considering how to scale up these types of programmes in future, operations aiming to support affordable housing should clearly define their

target beneficiary populations to be able to measure the impact of the programme. This lesson can generally be applied to all non-experimental interventions.

## 5. Provide Flexible Funding Mechanisms

33. Offering diverse funding options (e.g., grants, loans, credit enhancements/guarantees or a mix of the three), which provide medium-term capital, and lending to financial institutions with a track record of providing housing microfinance increases the likelihood of successful project implementation. This lesson may be applied to other interventions on a case-by-case basis, depending on the specific circumstances.

## 6. Proper Administration to Lessen the Burden

34. To lessen the administrative burden when operating loan programme activities, the UN-Habitat Secretariat should have conducted a feasibility study on how to fit a lending programme into a grantgiving institution. This lesson can usually be applied to other interventions in this field.

## VI. KEY RECOMMENDATION

35. The evidence from various sources suggests that the ERSO programme was successful, acted in a financially innovative, catalytic and bankable way, and introduced replicable and scalable, enhanced lending structures for the purpose of affordable housing for low-income households. The recommendations below suggest how the programme might be improved:
- (a) UN-Habitat could consider supporting scaling up ERSO internally, either in an expanded lending programme at scale (USD 20 million, for 20–50 projects), or in another round of experimental pilot lending for a period of four years. If either option is selected, it would

require a stronger level of commitment and adequate resources from UN-Habitat. In particular, UN-Habitat should:

- Make a substantial opening capital contribution;
- Staff the programme with between seven and ten<sup>8</sup> professionals and allocate a yearly budget of USD 2–2.5 million;<sup>9</sup>
- Invest in a robust administrative lending and support system;
- Conduct a thorough survey and reach consensus with donors on financial support;
- Consult stakeholders and consider the Habitat Agenda in determining the objectives of such a new programme, and where intervention is needed to fill in gaps in the financing of affordable housing for low-income households;
- Establish a simpler governance structure in a new programme. It is suggested that the Executive Director of UN-Habitat chair the board, of which the director of a future ERSO programme would be a member. The other board members could be persons with financial expertise and development experience. The board should set up, from its membership, at least four committees: financial policy and risk planning committee; credit review committee; audit committee; and compensation committee. It is suggested that the chair of the board also chair the financial policy and risk planning committee and the credit review committee.

- (b) Alternatively, UN-Habitat could consider exploring partnership alternatives with development finance institutions to continue to build on the work done and the results achieved under the ERSO programme, and to expand the work according to the wishes of the project partners of the ERSO programme. This alternative would allow UN-Habitat to continue to be involved in innovative lending for the urban poor, while providing a stronger platform to meet the demand for such lending from host countries, and to work at scale with international financial institutions interested in accessing these sectors in low-income countries, including the possibilities of public-private partnerships with development finance banks. This alternative could allow for greater sharing of programme operating costs. It could also allow for combined donor support with other initiatives, thus using donor funding effectively. This type of new initiative might be achieved through a number of potential partnership alternatives, including: Outside UN-Habitat but within the United Nations system, for example UNCDF, or the World Bank, or participating as a sponsor in a multi-donor scaled facility partnership structure<sup>10</sup> or a combination of two or more of these alternatives.

<sup>8</sup> Estimate by Urban Finance Branch Chief to cover professional and geographically balanced staffing.

<sup>9</sup> An approximate but reasonably common figure in the industry to calculate experienced financial staffing.

<sup>10</sup> Option outlined in the proposed ERSO programme sixth loan project presented to the Steering and Monitoring Committee in October 2010 (Annex V).

# 1. INTRODUCTION AND CONTEXT OF ERSO



A shelter project in a village in the Hebron Area, Occupied Palestinian Territory © IRIN/Tamar Dressler

## 1.1 INTRODUCTION

36. The UN-Habitat Governing Council and Secretariat have repeatedly recognized that housing and local infrastructure conditions in many countries, regions and neighbourhoods are of poor quality and overcrowded, resulting in unsafe housing, lack of access to clean drinking water, poor sanitation, unsustainable cooking fuel and other basic services. These conditions increase the vulnerability of the poor to the impact of urban poverty and environmental degradation. The lack of adequate shelter and basic services underpins Millennium Development Goal 7, target 7.D: By 2020, to have achieved significant improvement in the lives of at least 100 million slum dwellers.
37. The present evaluation assesses the progress made in the implementation of the ERSO programme during its experimental phase, from 2008 to 2011. The evaluation was conducted from October 2010 to February 2011 by an independent consultant hired by UN-Habitat.

## 1.2 MANDATE

38. This evaluation was mandated by the Governing Council of UN-Habitat in its resolution 21/10 of 20 April 2007. Its main purpose is to provide guidance for any decision on the steps forward of the ERSO programme by the Governing Council of UN-Habitat at its twenty-third session, in April 2011.

## 1.3 CONTEXT OF ERSO

39. At its twenty-first session, in April 2007, the Governing Council of UN-Habitat recognized that increasing the flow of investment—whether from donors, Governments or the private sector—to housing and infrastructure in underserved communities would help to alleviate poor housing conditions, and be a further tool with which to enhance the social mission of the normative and regional technical cooperation activities of UN-Habitat. This understanding was reflected in resolution 21/10, which emphasized the urgent need for the provision of increased resources for affordable housing and housing-related infrastructure, prioritizing slum prevention and

slum upgrading, and accordingly established the ERSO programme and the ERSO Trust Fund to develop experimental reimbursable seeding operations and other innovative financial mechanisms to increase the flow of investment in shelter and infrastructure to underserved families and communities.

40. In accordance with that resolution, UN-Habitat is responding to the challenge of finding innovative solutions for increasing funding for affordable housing in order to address the problem of growing slum populations and to contribute to poverty alleviation and better health. The strategic goal of the ERSO programme is to increase sustainable financing for affordable and social housing and infrastructure during a four-year experimental period from 2008 to 2011, through the introduction of experimental reimbursable seeding operations, loans and other innovative financial mechanisms. The rationale behind the ERSO programme was to explore innovative financial and credit enhancement structures to generate leverage and donor support for prudent lending programmes for affordable housing for low-income households and those who are excluded from a country's financial sector.
41. The impetus for such a financial programme dates back to the formation of the UN-Habitat Foundation itself, when in decision 32/451 of December 1977 the General Assembly of the United Nations adopted United Nations Financial Regulations 5.10 and 9.4, giving the Foundation the authority to incur borrowing for reimbursable seeding operations and extending loans from borrowed and earmarked voluntary resources. With the promulgation by the UN Secretary-General in July 2006 of the new special annex for the UN-Habitat Foundation to the Financial Regulations and Rules of the United Nations (ST/SGB/2006/8), the Governing Council and Executive Director were empowered to strengthen the Foundation and to develop it into a mechanism to assist developing countries with investments in housing.

#### 1.4 PURPOSE AND OBJECTIVE OF ERSO

42. According to paragraph 7 of resolution 21/10, the overall goal of ERSO is to improve the living conditions of the poor in developing countries and contribute to the Habitat Agenda goals of adequate shelter for all and sustainable human settlements in an urbanizing world. In addition, working towards the achievement of the Millennium Development Goals was to be at the core of ERSO activities.
43. The purpose of the ERSO programme is to:
- Field-test experimental and reimbursable seeding operations and other innovative operations for financing the urban poor for housing, infrastructure and upgrading through community groups, including where there is an expectation of repayments mobilizing capital at the local level; and
  - Strengthen the capacity of local financial and development actors to carry out those operations and to support the capacity of UN-Habitat to enhance those operations.
44. The objectives of ERSO activities are to:
- Increase the effective demand for financing of low-income housing, related infrastructure and upgrading by facilitating access of low-income community groups and households to financing for adequate shelter solutions; and
  - Demonstrate to the Governing Council the technical, financial and institutional capacity of UN-Habitat to identify, prepare and influence innovative, reimbursable seeding operations that mobilize domestic investment capital and savings on a financially sustainable basis.

## 1.5 SCOPE AND OBJECTIVES OF THE EVALUATION

### SCOPE

45. In accordance with the Terms of Reference, the present evaluation covered the period from January 2008 to 31 January 2011, and focused on ERSO fund design and implementation processes in the Nairobi office, in addition to selected field projects (Annex I). The evaluation also covered all the ERSO programme lending transactions, and advisory and capacity-building activities conducted to date. A risk appraisal was carried out, including the resource implications of the proposed mechanisms in ERSO and other activities tested during the experimental period.
46. The assessment thus takes into account ERSO programme design, processes, implementation and outputs. The evaluation questions in the Terms of Reference have been developed into a questionnaire for the purposes of the evaluation (Annex III).

### OBJECTIVE

47. The objective of this evaluation is to enable UN-Habitat, partner agencies and other stakeholders to assess the progress made towards delivery of the programme outcomes and, on that basis, to make decisions on the future orientation and emphasis of ERSO.

## 1.6 REPORT STRUCTURE

48. Chapter 1 outlines the background to the establishment of the ERSO programme and discusses the objectives and purpose of the evaluation. Chapter 2 describes the evaluation methodology, while the evaluation findings are summarized in Chapter 3, and the conclusions and recommendations are presented in Chapter 4.

## 2. EVALUATION METHODOLOGY



Children playing in the street in Uganda © UN-Habitat

### 2.1 DESIGN OF THE EVALUATION METHODOLOGY

49. The evaluation examined ERSO programme design, processes and implementation, and conducted a risk analysis, including the resource implications of the proposed

mechanisms in ERSO and other activities tested during the experimental period. Various methods were used to collect information, including document reviews, stakeholder interviews, a questionnaire and field visits, as outlined in Table 2.1 and based on the Terms of Reference (Annex I).

TABLE 2.1: **Methods used and type of information collected**

Methods	Purpose	Evaluation objectives		Source of information
		Observations	Challenges	
Document review	To gather background information and gain an impression of how the ERSO programme operates	1) Comprehensive and historical information 2) Information already exists 3) Few biases about information	1) Focused on documents provided 2) Information may be incomplete 3) Need to be clear about what one is looking for 4) Inflexible data-gathering: data is restricted to what already exists	Documents provided as stated in the Terms of Reference (Annex I). In addition, the decision documents, credit reviews, applications, finances, memos, minutes, papers and articles collected during the evaluation and listed in Annex VIII were used.

Stakeholder interviews	To obtain stakeholder opinions and/or experiences, and learn more about their answers to questionnaires	<ol style="list-style-type: none"> <li>1) To obtain a range and depth of information</li> <li>2) Flexible with stakeholders</li> </ol>	<ol style="list-style-type: none"> <li>1) Focused on stakeholders in UN-Habitat in Nairobi and selected field visits</li> <li>2) Difficult to analyse and compare</li> <li>3) Interviewer may have biased stakeholder responses</li> </ol>	Held more than 50 face-to-face interviews and several complementary interviews by phone or e-mail. The stakeholders were grouped according to their involvement in the ERSO programme. Most stakeholders responded to the full set of questions while others were only asked to respond according to their involvement. <sup>11</sup>
Questionnaire	To organize a quick and easy way to obtain large amounts of information from the stakeholders most involved in the ERSO programme	<ol style="list-style-type: none"> <li>1) Easy to compare and analyse</li> <li>2) Gathered a great deal of data on the ERSO programme</li> <li>3) Evaluation focus questions were already provided by the terms of reference</li> </ol>	<ol style="list-style-type: none"> <li>1) Might not get careful feedback</li> <li>2) Wording may have biased stakeholder responses</li> <li>3) Does not always get the full story and was validated with interviews in this evaluation</li> </ol>	<p>Questionnaires presented only to former and current staff and the SMC members; however it was also a tool for guiding interviews.</p> <p>Questionnaires based on the questions provided in the terms of reference with some amendments, including additional questions.</p>
Field visits	To gather accurate information about how the ERSO programme actually operates on the ground	View the operations of the ERSO programme as they are actually occurring	<ol style="list-style-type: none"> <li>1) Difficult to interpret observed behaviour</li> <li>2) Complex to categorize observations</li> </ol>	<p>Field visits to ERSO programme projects, one to the Occupied Palestinian Territory and one to Uganda</p> <p>The project in the Occupied Palestinian Territory was continuing, while the Uganda project was in the planning phase.</p>
Review	To conduct assessment of and comparison with other lending institutions in the United Nations system and best practice	<ol style="list-style-type: none"> <li>1) Information to compare the ERSO programme with other similar programmes in United Nations system</li> <li>2) Best practice</li> </ol>	Represents only information those institutions chose to provide	Reviewed IFAD and UNCDF lending organization as compared to the ERSO programme, and assessed the operation of the ERSO programme according to the market-leading firm, FinMark, terms of best practice

<sup>11</sup> Groups were organized according their involvement with the ERSO programme: former and current staff and SMC members; CPR and directors of UN-Habitat; Programme Support Division and United Nations Office at Nairobi; partners and loan project managers.

50. Before the actual evaluation mission began, the consultant participated in the ERSO programme Steering and Monitoring Committee (SMC) meeting in Madrid from 13 to 15 October 2010, which gave him insights into the operation and challenges of the ERSO programme. Review of a wide range of documents provided by the UN-Habitat Urban Finance Branch provided information on the background to the ERSO programme and the management decisions concerning it.<sup>12</sup> In addition, the consultant prepared a questionnaire<sup>13</sup> based on an extensive set of questions in the Terms of Reference.

### Evaluation Criteria

51. The evaluation criteria of efficiency, effectiveness, relevance, sustainability and preliminary impacts of ERSO activities were used.

### Sources of Information

52. The data sources included relevant documents, the questionnaire and interviews with stakeholders during field trips (Table 2.1). The Terms of Reference suggested questions that guided the focus of the evaluation. The questions, which represent various angles from which to bring out the potential value of the ERSO programme, were slightly rephrased into a manageable format (Annex III). The evaluation had the discretion to add or modify the evaluation questions in the Terms of Reference. The following questions were added;

- (a) Can the ERSO programme approach contribute to the overall UN-Habitat mandate and its Medium-Term Strategic and Institutional Plan?
- (b) Has the ERSO programme governance (SMC/CPR) been supportive, directive and effective in terms of its steering

and monitoring role?

- (c) Does the ERSO programme lending approach have leverage potential?
  - (d) Is it possible to state any innovative financial impact of the ERSO programme to date?
53. Modification of questions was motivated by the evaluation commitment to paying due attention to stakeholder views of how the ERSO projects have interacted with the overall UN-Habitat mandate, the role of the ERSO programme governance, the leverage potential of the programme, and to find out whether the stakeholders had already observed financial impacts. The modification was also intended to narrow down the suggested extensive set of questions to match the categories of ERSO programme stakeholders, based on their involvement and knowledge of the operation of the ERSO programme, as outlined in Table 2.2.
54. The questionnaire was sent to UN-Habitat staff and SMC members. Completed copies were used to produce tangible data sources, because these groups had detailed knowledge of programme operations. All questions in the questionnaire were answered. The questionnaire was also used as a guide to face-to-face and phone interviews with other ERSO programme stakeholders. Questions asked during the interviews were modified depending on the roles and responsibilities of the interviewees.

### Stakeholder Involvement, Participation and Contribution

55. The participation of stakeholders was vital to the evaluation process, as their contribution in the form of information and opinions influenced the evaluation of the ERSO programme. The following stakeholders proposed in the Terms of Reference were

<sup>12</sup> See the list of documents in Annex VIII.

<sup>13</sup> See the questionnaire in Annex III.

TABLE 2.2: Stakeholder consultations in the evaluation of the ERSO Programme

Stakeholder/ Key areas	Mandate and overall back-ground	Manuals and operations	Project loans on site	Support administration	Collaboration partners	Best practice	Response to questionnaire
Committee of Permanent Representatives	X	X	X				
United Nations Office at Nairobi				X			
UN-Habitat Deputy Executive Director and Heads of Divisions	X		X		X		
UN-Habitat, Programme Support Division				X		X	
UN-Habitat, Legal Officers		X		X		X	
UN-Habitat, current and former staff	X	X	X	X	X	X	X
Steering and Monitoring Committee	X	X	X	X	X	X	X
Partners and project site manager			X				
Donors	X				X		
IFAD and UNCDF					X		
Others		X				X	

contacted for interviews and later consulted on specific issues:

- (a) The MTSIP Steering Committee was informed of the process and invited to provide feedback on draft findings and recommendations;
- (b) The donors were invited to comment on draft reports;
- (c) The Steering and Monitoring Committee (SMC) of ERSO was also invited to review the draft reports;
- (d) The CPR Working Group on the ERSO programme was informed of the progress and results of the evaluation

throughout the process, while the evaluation approach and main ERSO programme findings were presented to it for comments.

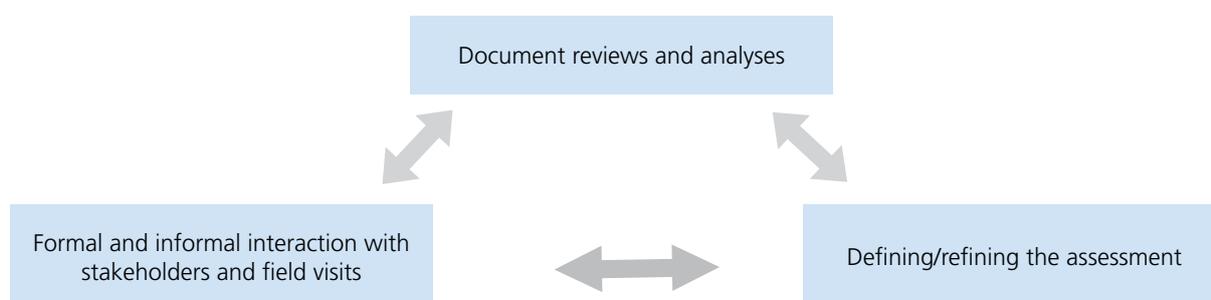
56. In addition, more than 50 stakeholders were interviewed, most of them at face-to-face meetings. Most of the interviewees were from Nairobi and included high-ranking and middle-level management officials of UN-Habitat and the United Nations Office at Nairobi, CPR members, donor representatives, directors and staff of the Urban Finance Branch and branches of the Human Settlements Financing Division. Others interviewed included local government

officials and project site representatives in Ramallah, Occupied Palestinian Territory, and Kampala.

### Evaluation Process

57. The evaluation process began with an inception report submitted during a briefing session with the UN-Habitat Monitoring and Evaluation Unit and the Urban Finance Branch team. The participants agreed on the overall evaluation methodology outlined in the inception report, but called on the evaluation to address all the issues in the Terms of Reference. To minimize the logistical difficulties, the Urban Finance Branch team was responsible for coordinating site visits and interviews with key stakeholders. The evaluation environment was structured as outlined below.
58. The evaluation process included:
- (a) Desk review of project information, including the key documents listed in the Terms of Reference;
  - (b) Interviews with: Project managers and national partners to collect information on achievements and impact of and challenges faced by the project, including the management aspects of work; and key project stakeholders, focusing on the degree of programme implementation and the extent to which the project had had the intended impact, and what could have been done differently or better, so that lessons could be learned;
  - (c) Face-to-face and e-mail interviews conducted with stakeholders, who showed a great deal of interest in the evaluation and were generous with their time. Besides delivering well-organized views, stakeholders narrated the history of the ERSO programme and gave opinions on its future outlook and on the implementation of the programme on the basis of the evaluation criteria and objectives;
  - (d) Presentation of a preliminary overview of the findings both orally and as preliminary drafts to the Urban Finance Branch team and selected stakeholders; feedback received from them before preparing the draft evaluation report;
  - (e) To minimize any inaccuracies and maximize ownership of the findings, the evaluator submitted the draft report to the Monitoring and Evaluation Unit for comments from stakeholders, which were consolidated and considered in the final report.<sup>14</sup>

FIGURE 2.1: Evaluation process



<sup>14</sup> The feedback came from the entire Secretariat. The Monitoring and Evaluation Unit coordinated and consolidated the responses, which were sent to the evaluator. The Unit also managed the evaluation and was the focal point.

## 2.2 METHODOLOGICAL LIMITATIONS AND CONSTRAINTS

59. The limitations and constraints anticipated in the inception report proved justified. They included:

- (a) It was not realistic to expect the evaluation to show what the development impact might be, on future beneficiaries since none of the ERSO programme lending projects had advanced to completion. To overcome this limitation, the evaluation discusses development impacts in terms of how important finance is for affordable housing for low-income households, and what financial investments have been concluded during the experimental period. The evaluation also touches on how the financial leverage mechanism works and the possibility of replicating and scaling up the current ERSO programme lending mechanisms, using existing financial infrastructure arrangements in an innovative way;
- (b) It was not possible for the evaluator to meet all key stakeholders in the ERSO programme for face-to-face interviews because of the huge geographical distances and time constraints. The evaluation meetings were limited to key stakeholders in Nairobi and at the project sites in the Occupied Palestinian Territory and Uganda. To overcome any consequent limitations, key stakeholders were contacted by phone and/or e-mail;
- (c) The Terms of Reference also required a comparative analysis to be made of UN-Habitat ERSO operations in relation to international best practice with regard to the delivery of finance for

low-income housing and infrastructure. As the evaluator is unaware of any published definition of best practice in this field and was not directed to any by UN-Habitat, this was an enormous challenge. The task clearly required resources and research well above what could be accomplished with the time and funds available. The evaluator circumvented this through web-based research and electronic interviews with experts<sup>15</sup> at FinMark Trust, a South African firm specializing in the field. The findings were limited to that firm's views, however;

- (d) The Terms of Reference expected the evaluator to review other lending programmes and operations within the United Nations system, such as UNCDF and IFAD, with comparative analysis of the aims, organizational structures, staffing and operations of the other two programmes within UN-Habitat with a lending mandate. Although the evaluator contacted officials from UNCDF and IFAD to participate in a questionnaire survey to produce a comparative analysis between the organizations, he has not yet received sufficient responses from those institutions. Instead, the organizations' latest annual reports have been used, but the validity and relevance of the data in the reports could not be confirmed.

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<sup>15</sup> Kecia Rust, see list of interviewees (Annex VII).

60. During the evaluation process other limitations and constraints arose related to gender equality and human settlements development.
61. In terms of the Habitat Agenda this means paying attention to linkages between gender roles and responsibilities within the area of human settlements. Outlining gender linkages in the areas of the UN-Habitat mandate will strengthen understanding of

why promoting gender equality and women's rights is important in achieving the goals of sustainable development that have been identified for UN-Habitat. The evaluator has not, however, assessed this linkage in the ERSO programme or at the project loans level because the issue was not straightforward in the review documents or in the questions of the Terms of Reference.

### 3. ANALYSIS AND FINDINGS



Community members engage in the planning of housing projects in Nepal © UN-Habitat

#### 3.1 FINDINGS ON ERSO DESIGN AND IMPLEMENTATION

62. The implementation of the ERSO programme was not preceded by a documented feasibility study of how to streamline the programme into the UN-Habitat administration; rather, the approach (arising from the mandate and strong requests from Member States)<sup>16</sup> was to proceed directly to implementation using existing resources. Table 3.1 provides an overview of ERSO Programme staff and their key qualifications. In the early stage, the ERSO programme was coordinated by a small in-house management team supported by senior part-time banking consultants from Swedbank,<sup>17</sup> guided by the Steering and Monitoring Committee. This approach covered a wide external geographical, institutional and thematic range of technical expertise. Especially with regard to the establishment of the necessary in-house loan administration systems, however, the level

of managerial staffing, even with technical support, turned out to be inadequate for the very substantial administrative task of setting up an experimental programme. From very early on, the CPR members explicitly stressed the need for a lean staffing level to avoid opportunity costs to UN-Habitat caused by ERSO activities,<sup>18</sup> and rejected the notion of funding the establishment of permanent structures exclusively for ERSO within UN-Habitat through core resources. Although an internal UN-Habitat ERSO programme document<sup>19</sup> of April 2008 called for the recruitment of professionals with finance expertise to serve in the ERSO team, the actual recruitment process experienced internal challenges and delays.

63. When the programme was halfway through its experimental period, UN-Habitat expanded the technical team by hiring four finance professionals to support the implementation of programme activities. Some 20 months

<sup>16</sup> Statement from former ERSO management.

<sup>17</sup> One of the largest Swedish banks.

<sup>18</sup> Memo from the CPR working group, 21 September 2007.

<sup>19</sup> United Nations Human Settlements Programme, ERSO Programme, document dated 10 April 2008, p. 10.

TABLE 3.1: ERSO programme staff key qualifications

Name	Position	Time with ERSO	Education	Main experience
Bert Diphooorn	Acting Head of Human Settlements Financing Division.	September 2007–present	M.Sc. in Human Geography of the Developing Countries from the University of Utrecht; B.Sc. in Human Geography from the University of Groningen.	Over 20 years' experience in operational management and the provision of technical assistance and policy advice in Africa, Asia and Europe in the area of water and sanitation.
Christian Schlosser	Former Coordinator of the ERSO programme	September 2007–July 2009	PhD in Urban Affairs and Public Policy Masters in Public Administration	Before joining the UN-Habitat Human Settlements Financing Division in 2006, Mr. Schlosser was responsible for advising senior management of the German Ministry of Transport, Housing and Urban Development on federal housing assistance programmes, housing finance, rent and home ownership policy. In particular, he contributed to the reform of the 11 billion federal home ownership programme; the €5 billion housing component within the overall redesign of the national welfare system; and to the inter-ministerial process of developing proposals for improved integration of home ownership saving schemes into the tax-break scheme for personal retirement accounts, which concerns about 30 million citizens in Germany. He had previously served as a research assistant at the University of Delaware, United States, and as a transit planner for a Land government in southern Germany.
Barbara Hewson	Chief of UFB and head of ERSO programme	June 2009–present	A.B., Princeton University, 1973, History, summa cum laude. Phi Beta Kappa. J.D., New York University School of Law, 1979 Programme in Business Strategy (1998) and Executive MBA Corporate Finance Programme (1992-1994) of the Graduate School of Business, Columbia University	Over 30 years' banking and financial experience. Before joining UN-Habitat, Ms. Hewson was Managing Director at NewLine Capital, a financial advisory firm focused on private sector investment and public-private partnerships in emerging and frontier markets. NewLine advised on mortgage, micromortgage, microfinance housing and consumer finance investments and legislative and regulatory frameworks for affordable housing. Before founding NewLine, Ms. Hewson was a Senior Vice-President and Managing Director at JP Morgan Chase and predecessor banks Chase Manhattan Bank and Chemical Bank, where she served as head of Global Securitization Services, a division she built up from USD 2 billion to over USD 300 billion in assets under administration, serving international and domestic banking and investment clients from offices in the United States, the United Kingdom, Ireland and Hong Kong. She was a board member of Chase Ireland and Chase Manhattan Trust Company of the West. Prior to this assignment, Ms. Hewson headed Chemical Trust Company of California. Ms. Hewson joined Chemical Bank from Watson, Farley & Williams, where she led the New York banking practice, specializing in cross-border investments and asset-based finance, including structuring, workout and bankruptcy practice.

Name	Position	Time with ERSO	Education	Main experience
Saturnino Machancoses Carceller	Senior Credit Officer of the ERSO programme	March 2009–present	University of St. Andrews, Scotland, United Kingdom  BA and MA Honours in Economics & Management	Over 10 years' banking and financial experience. 2002-2009 SPANATA & Co, London, UK, Co-founder and Head of Finance & Operations. Co-founded start-up concept from scratch and acted as head of finance and operations. Achieved break-even within 12 months, grew revenues from zero to GB£ 2 million. Responsible for opening five new outlets whilst maintaining profitability. Managed a team of more than 30 employees of 15 different nationalities. Morgan Stanley, London, UK. Mergers & Acquisitions, Investment Banking Division Received extensive training and hands-on experience in complex financial modelling, interpretation and analysis of company financial statements across various industry sectors and countries. Company valuations using various methodologies, including discounted cash flow (DCF) modelling, comparable company analysis (Comps) and precedent transaction analysis (Prepays). Formed part of execution team of high profile transactions, such as the €4.4 billion IPO of Inditex on the Madrid Stock Exchange in 2001. Debt Capital Market Services, Investment Banking Division Extensive training and hands-on experience in bond pricing, bond market analysis, corporate debt structure analysis to determine possible funding requirements, preparing presentations for corporate clients considering future debt issuance and executing client bond issues.
Laura Cordero	Junior Credit Officer of the ERSO programme	March 2009– March 2011	B.Sc. Economics. Concentration: International and Development Economics; M.Sc. Foreign Service, Concentration in International Development	Before joining UN-Habitat, Laura Cordero worked for a range of development finance institutions, including the World Bank as Private Sector Development Consultant for the Competitiveness and Private Sector Development Project in Mozambique, and the Asian Development Bank, as Capacity Development and Private Sector Development Analyst. She also worked with microfinance institutions such as ProCredit Bank in Mozambique and FINCA International.
Portia Machancoses	Programme Officer of the ERSO programme	November 2008– May 2009		2002-2008: Morgan Stanley & Co. International, London, UK, Vice-President. Analysing areas / divisions of existing revenue generation within Morgan Stanley and determining where additional revenues could be gained. Acting as point of contact at Morgan Stanley for entire client relationship and ensuring clients were serviced in accordance with their importance to the firm. Creating and maintaining client management system IPB Europe: cross-selling, ensuring clients remained with Morgan Stanley through client meetings, presentations, mailings and frequent contact.

Name	Position	Time with ERSO	Education	Main experience
<b>Consultants</b>				
Göran Henriksson	October 2007–October 2010 (not on a full-time basis)			Senior Executive experience at large and small companies in different areas (15 years), with core skills in HR, business planning and financial management.
Stig Jonsson	October 2007–October 2010 (not on a full-time basis)			Thirty-five years' banking experiences in different positions, from practical issues at account level up to decision-making at executive level in a number of financial institutions. Mr. Jonsson has very broad experience in the whole financial field.
Corinne Buck	July 2008–June 2009			Previous work experience in F. van Lanschot Bankiers N.V. in Den Bosch (Netherlands) from October 2003 to November 2007.  Project Member Management Information Solutions. Defining management (accounting) information based on business needs and customer value, one of the strategic goals of the company. Wrote all documents on the design of the management (accounting) reports for the new information system to go live in June 2008. Communication with business sponsors, management accounting department, other project teams and the data warehouse service provider. Account Manager at a customer branch in Zeist.
Iain Heggie	July 2009–April 2011 (not on a full-time basis)			Senior banker with over 25 years' experience advising financial institutions, with considerable expertise in the arrangement and management of credit intensive transactions and structured finance programmes, and a detailed understanding of required competencies for banks as originators and sellers of assets, secured debt issuers or structured transaction sponsors
Ann Marshall	September 2009–December 2010 (not on a full-time basis)			Twenty-five years of diverse experience developing and managing financial services businesses in emerging markets, including several years as an executive with the Moscow-based subsidiary of a United States asset management company. Background includes New York law firm practice focused on public finance.

Source: Derived from respective résumés, Annex X.

before the end of the project, a senior banker with financial programme management experience<sup>20</sup> was also hired.

64. Analysis of the questionnaire, indicates that the respondents were not convinced of the efficiency of the ERSO programme; some argued that UN-Habitat was not prepared to make the necessary administrative adjustment to enable the ERSO lending model to work optimally (Annex IV , Figure 3). This observation may be questioned in view of the changes made by the organization during the learning phase of the programme, and also the fact that some respondents agreed that the ERSO programme had been able to provide products and services relatively well. With limited staff, resources and processes, however, it may be unfeasible to continue to offer much-needed services if the programme is not expanded. The ERSO programme is merely a small test that should show how efficiently it could be run with the support of the international community. Furthermore, the ERSO programme has had insufficient financial resources, and some of its procedures do not enable it to be an effective financial mechanism offering the required support to project beneficiaries. UN-Habitat needs to provide more funding for staff and other resources if the programme is to meet its global mandate for affordable housing. Unless increased funding and staff are made available, the evaluator is of the opinion that the programme should be discontinued.
65. Although the ERSO programme has an array of instruments and flexibility (e.g., local currency, various types of loans) in principle, restrictions in systems and implementation hamper flexibility. In fact, UN-Habitat has proved to be an obstacle in many areas, creating delays and providing limited support to partners. Staff and SMC interviewees were of the opinion that, if the ERSO programme positioned itself in larger, multi-institutional transactions, taking a catalytic role as first-loss interests, it would leverage funds. Moreover, the programme has come a long way, and important lessons can be learned.
66. This evaluation recognizes that UN-Habitat has a political mandate backed by the General Assembly, the UN Secretary-General and the Comptroller, to borrow and lend at its own risk. This mandate was reaffirmed in 2002, when UN-Habitat was elevated to a programme, and in 2007, when the ERSO programme was established. Creating efficient, sustainable and prudent operational systems for long-term lending is a 20-year exercise that is part of a much larger trend in the international community, from development assistance to development finance, to which many multilateral and bilateral agencies are moving. Although UN-Habitat has had political, financial and institutional capacity constraints, it has made enormous improvements since 2002. It may achieve its mandate in the coming 12 years, provided that it works in a graduated, systematic manner to gain the confidence of member States, secure the required funding and overcome quite understandable institutional constraints associated with the change from development assistance projects to a combination of TA and transaction lending. Development finance remains a fairly new activity globally and within UN-Habitat and greater awareness-raising is crucial.
67. There were mixed views on the sustainability of the ERSO programme (Annex IV, Figure 4). Some respondents were of the view that donor countries were likely to object to UN-Habitat as the preferred institution to host ERSO, and preferred an international development bank. On the other hand, recipient countries would probably be positive if new sources of funding were to result. The key challenge will be for UN-Habitat to demonstrate added value.

<sup>20</sup> See Annex X for résumés of former and current staff of the ERSO programme.

68. Other respondents voiced support for the idea of ERSO becoming part of the UN-Habitat infrastructure albeit with its own administrative policy and carrying out a permanent mandate with appropriate staffing and financial support. Given its centrality in the United Nations system, UN-Habitat has the ability to marshal the necessary financial resources. As an experimental programme, ERSO has been adequate but, in the longer term, its management team should be strengthened.

### 3.2 FINDINGS ON THE ERSO PROGRAMME TRUST FUND AND LOAN PORTFOLIO

69. The evaluation was asked to report on the key performance indicators (Table 3.2), which were developed with targets in eight areas<sup>21</sup> when the original programme was prepared and adopted by UN-Habitat in April 2008.
70. The indicators were calculated from primary sources using the loan disbursement documents and calculating the total costs and target households from the loan agreements. They were reached, with the exception of the fundraising target of the programme's projected four-year budget. The evaluator considers that the indicators may have been too narrowly set to efficiently measure the intrinsic value of an innovative financial lending programme.
71. Table 3.3 shows that ERSO has a diverse lending portfolio. All the five loans were closed within six months in the third year of the four-year trial period. The loan maturity ranges from 3 to 20 years and the interest rate from 1 to 6 per cent. The estimated leverage ratio was high, ranging from three to nine, with the exception of the Occupied Palestinian Territory project, because of its scale and the ERSO loan catalytic arrangement.
72. There was consensus among the respondents that the ERSO programme was very relevant<sup>22</sup> (Annex IV, Figure 1). That position was also supported by the in-depth interviews with UN-Habitat officials, donor representatives and partners. Most respondents found the concept of ERSO sound, although the current implementation arrangement was perceived to pose significant challenges.
73. Many respondents and several UN-Habitat officers interviewed suggested that a blend of credit enhancement (guarantees) and loans would be appropriate and essential for ERSO support to move further down the income pyramid. In addition to ERSO funding, community project finance would require greater government input and subsidy.
74. Diversifying the funding portfolio is an area in which UN-Habitat, with its strong convening power and influence on Governments, may be very relevant, effective and valuable until the private sector can fully understand and address information asymmetry and market failure. However, incentives will be needed to attract private sector involvement.
75. The beneficiaries agreed that the ERSO projects actually leveraged the in-put resources, which resulted in additional beneficiaries among urban low-income households. AMAL, Azania and the Kasol-Tororo Municipality programme are models where ERSO incentives attracted transactions by private-sector banks. The incentives included:
- (a) Long-term, local currency lending. This was actually also used as a subsidy, but even if market rates were used, it would

<sup>21</sup> Projected budget 2008–2011: i) Number of ERSO operations in the process of implementation. ii) Average ERSO contribution per operation. iii) Domestic investments / savings mobilized per operation. iv) Number of low-income households served. v) Households served under ERSO within the range of income deciles defined per country operation. vi) Strengthened capacity of domestic financial institutions in affordable housing finance. vii) Strengthened capacity of domestic institutions and development actors in affordable housing delivery. viii) Infrastructure provision and upgrading.

<sup>22</sup> Financing has become a key issue for UN-Habitat: It is one of the pillars of the Medium-Term Strategic and Institutional Plan.

TABLE 3.2: ERSO programme key performance indicators

Original specific measurable performance indicators, January 2008	Target	Achieved	Remarks on results
Projected budget 2008–2011 (USD)	15,000,000	No	3,670,000 was raised.
Number of ERSO operations in the process of implementation	8–12 in total	Almost	5–6 operations will be in operation at the end of the trial period.
Number of ERSO operations in the process of implementation per region	In four regions	Yes	Two in Africa, one in Asia, one in Central America, and one in the Middle East.
Average ERSO contribution per operation (USD)	Min. 500,000	Yes	One operation was as low as 250,000.
Domestic investments/savings mobilized per operation	Average leverage factor min 1:1	Yes	Analytic evidence suggests that a minimum mobilization of 4:1 may be achieved as early as 2015.
Number of low-income households served	Min. 1,600 total of households	Yes	Estimate of a minimum of 6,000 low-income households when projects are completed.
Number of low-income households served	Min. 200 households per operation	Yes	Estimate of 500 low-income households per operation when projects are completed.
Households served under ERSO within the range of income deciles defined per country operation	No specific indicator was set	Yes	A total of 6,000 low-income households obtaining or in the process of obtaining improved shelter solutions as a result of improved access to finance for low-income housing through an ERSO project.
Strengthened capacity of domestic financial institutions in affordable housing finance	No specific indicator was set	Yes	The capacity of local financial and development actors strengthened to ensure their ability to carry out the ERSO projects effectively, efficiently and in a sustainable manner, was measured: directly through a comparative institutional capacity evaluation, carried out before implementation and in April 2011; and indirectly, by achieving a non-performing debt rate not more than five per cent greater than the national non-performing debt rate for the housing sector loan portfolio in the respective country on both local trust funds established with ERSO resources and on the ERSO Trust Fund itself.

be a significant incentive because some markets have important local currency lending liquidity issues;

- (b) Key investment (as in the case of shares in AMAL bought with a loan to SAKAN); in this particular case, the name and reputation of the United Nations as an institution with neutral interest was essential to succeed in AMAL

capitalization. In other instances (e.g., Uganda), United Nations involvement in the project gave some lender reassurance and was an incentive for financial institutions to become involved in the project, including from the corporate image perspective.

76. The AMAL project also demonstrates UN-Habitat ability to leverage large funds from

diverse public and private models to finance urban settlements. A permanent ERSO programme may be appropriate in delivering a much more solid platform for cooperation, especially with new partners. A partnership approach is therefore extremely important

if a small programme such as ERSO is to be more catalytic.

77. Stakeholders also indicated that efficient incentives were needed to stimulate private-sector investment in low-income housing and

TABLE 3.3: ERSO programme loan projects as at 31 January 2011

Name	Loan approval	Amount (USD)	Estimated total project costs <sup>23</sup> (USD)	Estimated leverage ratio	Currency	Tenor, years	Rate per cent per annum	Repayment
Azania Bank Limited	21 October 2009	500,000	4,550,000	1:9	TSh	3	1.5	6 periods of 6 months.
Habitat for Humanity International Nepal	8 March 2010	250,000	750,000	1:3	Nr	5	1	Quarterly repayments and full, straight-line amortization schedule of principal and interest (over 18 quarters).
Palestinian Affordable Housing Foundation (SAKAN)	8 March 2010	1,000,000	673,500,000	1:673	USD	20	Max 12, average 5–6	Single bullet repayment of principal expected in 2030.
DFCU Bank Limited	12 March 2010	500,000	2,360,000	1:5	USh	15	2	Fully amortizing on quarterly basis, commencing 2 years after disbursement date.
Fundación para la Promoción de Desarrollo Local (PRODEL)	12 March 2010	500,000	N/A - The loan is included in PRODEL ordinary lending.		USD	10	6, close to market	Fully amortizing on quarterly repayments, straight-line basis.

<sup>23</sup> Urban Finance Branch presentation to CPR, ERSO programme working group 21 April 2010.

underserved markets. The private sector has not yet demonstrated that it is willing and able to meet the demand from this market sector—although that varies according to context. The ERSO programme projects have begun to demonstrate this, but, for some projects, using incentives in addition to interest rate subsidy would have been more appropriate. The PRODEL project, for example, shows how strong demand emerged once community project finance models were successfully applied.

78. The evaluator learned of the need for organized community groups to augment savings with commercial finance to acquire land, extend infrastructure or construct simple housing with a view to repaying part or all of that finance. Significant experimentation is required in relation to such financing arrangements. Respondents demonstrated high demand for ERSO programme products and services, partly because other institutions were either uninterested or unable to offer similar services.
79. Stakeholders argued that, if private-sector finance worked hand-in-hand with the ERSO programme, there could have been learning and partial buy-in from the beginning. The ERSO programme would then have been a unique opportunity for private-sector finance to experiment with systems that they could not use on their own. Through the ERSO programme the private sector would have had effective and sustainable access to Shack/Slum Dwellers International (SDI), local authorities, community development financial intermediaries and bilateral guarantee facili-

ties, among others. Accordingly, guarantees, liquidity facilities, first-loss position, and other risk-reducing mechanisms are important incentives, as is the partnership approach whereby the ERSO programme carries much of the transaction costs that would otherwise be borne by the financial service industry.

80. ERSO tested five models<sup>24</sup> of attracting private-sector finance into affordable housing and infrastructure projects. In all cases, that a mix of lending sources had been brought together to overcome any previous funding gap was an achievement in itself. Table 3.4 and the descriptions of the individual loan projects that follow show that all the ERSO projects are relevant, with somewhat efficient implementation and reasonable performance. The Nepal and PRODEL projects have already shown development impact and are considered sustainable by site managers.

### 3.2.1 MHONZE PROJECT, UNITED REPUBLIC OF TANZANIA

- (a) The credit enhancement provided by ERSO to Azania Bank gave it sufficient institutional and financial support to enable it to grant a loan to Mwanza City Council for a low-cost housing project. The council had already undertaken similar projects, but on a much smaller scale;
- (b) The involvement of UN-Habitat increased not only the visibility but also the council's stakes in committing itself to sound implementation of the project;
- (c) This project has also demonstrated

<sup>24</sup> In April 2009, UN-Habitat, signed a loan agreement with ARBAN, a Bangladeshi non-governmental organization, to fund the finalization of construction of a 40-unit building and the subsequent take-out finance for the members of a cooperative of slum-dwellers. A subsequent amendment to the loan agreement was made in October 2009, including a series of pre-disbursement conditions, which were key documents and information needed by the new ERSO management to comply with prudent lending practice (information that was not incorporated into the loan agreement before the loan was signed). The information included: affordability data from end users, approved building construction plans, proof of compliance with construction regulations, and appropriate permits for the non-governmental organization to receive a loan. In the process of gathering this information from the partner, the new ERSO management became increasingly uncomfortable with the ARBAN administration, and developed serious concerns as to the reliability of the affordability and other data. After a long negotiation process, it was decided to terminate the loan agreement. At that point, no disbursement had occurred. Unfortunately, no best practice due diligence had been conducted before signing the loan agreement. If a proper due diligence process had been followed before signature, red flags would have been raised much earlier in the process, and the lengthy post-signature process that finally led to termination could have been avoided.

TABLE 3.4: ERSO programme loan projects: design and challenges

ERSO loan Projects	Design	Implementation	Performance	Innovation	Challenges
Azania Bank Limited	Low-interest loan, to be on-lent to Mwanza City Council, for phase 1 .	Well-implemented, phase 1.	Phase 1 according to plan, phase 2 to be started.	To prove mixed development with high and best use of land, a model for similar projects.	Risks of construction delays.
Habitat for Humanity International Nepal	Low-interest loan, to be on-lent to 15 credit cooperatives to apply save and build methodology.	Well-implemented in the institution's ordinary lending.	Performs according to plan.	Credit and technical assistance to end users.	Low operating on-lent margin.  Needs to improve portfolio monitoring processes.  Limited capacity to manage growth of portfolio.
Palestinian Affordable Housing Foundation (SAKAN)	The loan was design for SAKAN to buy shares in the controlling company AMAL.	Some delay in implementation but revised plan on track.	Performs according to revised plan.	Catalytic investment and leveraged when it unlocked senior finance from other partners. Innovative in construction, tenor and interest rates.	Planned number of units does not materialize.  Rise of unit costs, may miss target groups.
DFCU Bank Limited	Low-interest loan to DFCU for construction finance and then lending to end-users as mortgage finance.	Delay in implementation, clearing difficulties.	Seems to be performing to plan.	Encouraging a local financial institution to provide housing loans to low-income households with land contribution by the Government.  Long tenor.	Rise of unit costs, may miss target groups.
Fundación para la Promoción de Desarrollo Local (PRODEL)	General corporate loan, which includes continuing infrastructure development, secondary lending to local microfinance institutions and secondary lending to support microfinance housing. Designed as a precursor to bond issuance.	Well-implemented in the institution's ordinary lending.	Performs according to plan.	The neighbourhood improvement programme is a municipal finance mechanism.  Near market rates and long tenor.	High lending concentration in four main institutional clients.
Pending experimental loan programme in partnership with IFC and KfW.	Not yet implemented. Innovative thinking. Working through banks capital base with first loss arrangement, which may award high leverage, using existing financial infrastructure.				

the viability of private-sector finance for the council for a mixed-use urban planning project. The funding allowed the council to compensate Mhonze informal dwellers in compliance with Tanzanian law. The funding will be recovered by the sale of the serviced plots;

- (d) The project enables informal dwellers who have received the compensation money to gain access to a serviced plot by guaranteeing the right of first refusal to purchase the new serviced plots;
- (e) The formalization of land use in the Mhonze area is expected to increase the council's tax base, enabling it to provide better public services to the population.

### 3.2.2 HABITAT FOR HUMANITY INTERNATIONAL PROJECT, NEPAL

81. The funding facilitated by ERSO to Habitat for Humanity International (HFHI) Nepal has allowed the provision of housing finance to 900 families in 15 urban and peri-urban locations around Nepal. The funding is also noticeably strengthening the existing network of non-governmental organizations and credit cooperatives, which are the second-largest<sup>25</sup> providers of financial services in Nepal. More specifically:

- (a) The ERSO loan has greatly strengthened the role of HFHI as an apex institution for credit cooperatives and village banks. As a result of this loan, HFHI has effectively doubled its lending capacity and is able to extend credit at a very low interest rate to give both credit cooperatives/village banks and "Save & Build" groups' access to finance at affordable rates (three per cent per annum for cooperatives/village banks and seven per cent for "Save & Build"

groups);

- (b) A key impact of this project has been the capacity-building of HFHI, especially during the loan negotiation process. The due diligence process, exposure to new financial and legal analysis and particularly the need to focus on professional management of the housing portfolio (including implementing partners' loan documentation and portfolio reporting) has provided HFHI with a first toolkit for private funding in the future;
- (c) HFHI Nepal is the first HFHI branch or affiliate to gain access to a loan, meaning that the project has been closely watched by HFHI Headquarters in Atlanta, United States of America, which has provided key technical and legal advice to its branch in Nepal, particularly since HFHI is ultimately responsible for loan repayment. HFHI views the experience of HFHI Nepal as a potential programme for financial capacity-building and access to soft finance for any of the 18 housing microfinance programmes that HFHI currently has around the world.

### 3.2.3 AMAL PROJECT, OCCUPIED PALESTINIAN TERRITORY

82. The ERSO contribution to this project is very small in percentage terms but, given the political neutrality of the United Nations financing and the ability to take the risk, the investment of ERSO funds was key. The establishment of AMAL represents a systemic change in the financial sector in the Occupied Palestinian Territory for the following reasons:

<sup>25</sup> World Bank, Access to Financial Services in Nepal.

- (a) AMAL laid the financial basis for the development of a mortgage market, with more than USD 500 million of funding committed through the facility. Taking into account the fact that current mortgage lending in the West Bank is negligible, this programme will in effect kick-start mortgage lending in the region;
- (b) The main source of funds for the programme is the Overseas Private Investment Corporation (OPIC) a United States Government development finance institution, which reassures developers and investors of the stability of the funds and provides some insulation against political risk by having what have been termed “prominent victims” at stake in the programme. The project has brought on board two of the main banks operating in the Occupied Palestinian Territory. Before this, those banks had no source of long-term financing and were therefore unable to offer mortgages to much of the population;
- (c) The programme is designed to offer advantageous lending conditions to customers to make the debt affordable: the interest rate on mortgage loans is expected to be around 7.5 per cent per annum, compared to current lending rates of over 15 per cent, only available to high-end borrowers;
- (d) Access to finance for families was one of the main constraints for real estate development in the Occupied Palestinian Territory. This facility’s establishment has directly stimulated seven developments in the West Bank, which are expected to sell the properties. Overall, it is estimated that the construction will create up to 100,000 new jobs in the region;
- (e) AMAL funding negotiations included a commitment by the World Bank and other entities to supporting the improvement of the legal and regulatory environment for mortgage lending.

### **3.2.4 KASOLI AFFORDABLE HOUSING PROGRAMME, TORORO, UGANDA**

- (a) The Kasoli Affordable Housing Programme in Tororo, Uganda, is the result of a collaborative effort between UN-Habitat, DFCU Bank, Tororo municipality, Kasoli Housing Association and the Ministry of Lands, Housing and Urban Development;
- (b) That each party committed to a specific portion of the project (the Ministry—land and architectural support, the municipality—infrastructure, DFCU—housing finance) is in itself an achievement for ERSO and the Ugandan housing and infrastructure industry;
- (c) This is the first project of its kind in which DFCU has been involved. The bank carried out an affordability analysis of the target population, which belongs to lower income segments than their average clients, and concluded that housing loans were feasible. The bank played the leading role in the project’s design and implementation, and expressed interest in replicating it in other locations;
- (d) The project has also aroused the interest of the Ministry, which has made a commitment to developing a further 40–50 similar projects nationwide.

### 3.2.5 PRODEL HOUSING MICROFINANCE AND NEIGHBOURHOOD IMPROVEMENT PROGRAMME, NICARAGUA

83. The loan to PRODEL, the main apex microfinance institution in Nicaragua, was used to support the current PRODEL housing microfinance lending portfolio, and to provide funding for a new loan product for PRODEL's neighbourhood improvement programme.

- (a) The funding for housing portfolio activities in PRODEL came at a critical moment for an institution that had only recently become totally independent of donor funding. The loan was made at a time when PRODEL efforts to attract international capital through a bond issuance were being curtailed by the unstable situation of the microfinance industry in Nicaragua, PRODEL's good performance notwithstanding (98.6 per cent repayment rate in the housing portfolio in 2010)<sup>26</sup>. This loan provided bridge financing to an institution that has a key role in the microfinance industry in Nicaragua, and sent a positive signal to potential bond investors;
- (b) The housing microfinance model promoted by PRODEL (and developed with the longterm support of SIDA) includes an innovative technical assistance service. This model has the potential for replication, particularly in other Central American countries.
- (c) The neighbourhood improvement programme was launched recently by PRODEL as an innovative municipal/community finance mechanism for small-scale infrastructure building and improvement. The ERSO loan has facilitated funding for the first three

projects in various municipalities in Nicaragua. More funding applications for similar projects have recently been submitted to PRODEL and are awaiting further funding availability.

### 3.3 FINDINGS ON THE PERFORMANCE OF THE ERSO TRUST FUND

- 84. As shown in Table 3.5, the ERSO Trust Fund received donor contributions of USD 3,629,597 in total funding, with the Government of Spain being the main contributor (79 per cent). To date, ERSO has disbursed five loans, totalling USD 2.75 million (76 per cent of donated funds). An amount equal to USD 550,000 (15 per cent of total funding or 20 per cent of disbursed funds)<sup>27</sup> will be set aside as loan reserves to cover credit and foreign exchange risks. The ERSO loan portfolio is performing according to schedule. Loan repayment has already begun on four of the five loans and the repayment rate is currently 100 per cent.
- 85. The evaluation found that the trust fund had been run according to the operational manuals, which were verified by the in-house programme management officers according to the UN-Habitat rules. In-depth interviews of staff and SMC members indicated improved effectiveness coinciding with the time when the ERSO project loans began to be disbursed<sup>28</sup> (Annex IV, Figure 2).
- 86. Most respondents were positive as to the relevance of the ERSO programme loans, which have reached the urban poor. The evaluator learned, however, of difficulties in defining the target group more precisely. Target populations have been interpreted in many ways by the stakeholders. They are mainly the urban poor, who include the middle class with no access to affordable housing (e.g., in the case of AMAL in the

<sup>26</sup> PRODEL.

<sup>27</sup> The balance is due to UN-Habitat overhead costs.

<sup>28</sup> See table 3.2.

TABLE 3.5: ERSO Trust Fund summary as at 31 January 2011<sup>29</sup>

Project Number:	FS-ERS-08-SPA	
Project Title:	ERSO (Experimental Reimbursable Seeding Operations)	
Starting Date:	1 January 2008	
Completion Date:	30 April 2011	
Executing Agency:	UN-Habitat	
Total Budget:	Projected Budget 2008-2011:	USD 15,000,000.00
Contributions received:		
	Government of Spain:	USD 2,879,596.99
	Government of Bahrain:	USD 500,000.00
	Rockefeller Foundation:	USD 250,000.00
Total contributions:		USD 3,629,597.00
Resources applied:		
		USD 3,300,000.00
Resources loaned:		
		USD 2,750,000.00
Resources reserves:		
		USD 550,000.00
Programme support cost:		
		10 per cent

- Occupied Palestinian Territory); at the bottom of the pyramid were households gaining access to small loans for house improvement, as in Nepal (Table 3.6).
87. The evaluator considers it crucial for ERSO to match the design of each project to the respective target community to be served and the financing capacity available. As projects vary in terms of type of intervention, depending on all relevant circumstances, including available funding, in order for some projects to be viable, they would need to target low-income to middle-income populations (higher on the income pyramid than the poorest) who exhibit a need for better housing and infrastructure. Others may focus on incremental *in-situ* upgrading, which is more affordable to the lowest income populations. Some projects can create a revenue stream that can cross-
- subsidize; government inputs may also fill in the gap.
88. Many respondents were of the opinion that scale could be reached if the ERSO programme could demonstrate why and where it worked, and how it could operate as a catalytic investment. The UN-Habitat convening power and influence could help to fill in policy gaps and create effective, high-level partnerships. Going to scale would require a business approach, which was one factor behind the effectiveness of the AMAL project in the Occupied Palestinian Territory. In general, transactions that sought to create market-funding mechanisms (e.g., credit enhancement facilities) that allowed several local financial institutions to participate were likely to achieve scale. The PRODEL neighbourhood infrastructure project had significant potential as a scalable mixed municipal and community infrastructure

<sup>29</sup> The figures in the table have been verified by the UN-Habitat Programme Management Officer.

finance model. The same was true of the DFCU-funded Kasoli project in Uganda, which was partnering with the Ministry of National Housing.

89. The evaluator asked UN-Habitat staff and SMC members about ERSO programme governance. The SMC is diverse in terms of expertise and background, a clear advantage for an advisory body. The in-depth internal interviews revealed that the SMC had been very supportive, providing great strategic guidance to the ERSO programme. Moreover, it fully understood the technical aspects of ERSO and was attuned to the political issues. That said, however, the Urban Finance Branch and the SMC respondents, questioned the efficiency of ERSO programme governance, partly because of confusion resulting from lack of clarity as to the role of SMC, and lack of support for SMC to function as an independent board. Some drastic improvement was, however, reported during the last year of ERSO. Furthermore, SMC sometimes served as the credit committee, losing its focus on guidance<sup>30</sup> and industry best-practice technology transfer. If SMC is retained, it should be transformed into the equivalent of the board of directors of a multilateral development bank.
90. The governance of the ERSO programme was set up as follows:
- (a) The Governing Council of UN-Habitat is the governing body of the ERSO Trust Fund;
  - (b) Under the authority and guidance of the Governing Council, the Executive Director is responsible for the management and administration of ERSO programme operations;
  - (c) SMC was established by the Executive Director to provide advice and guidance on ERSO programme operations;
  - (d) A UN-Habitat CPR/Internal working
91. The Executive Director of UN-Habitat was successful in appointing highly qualified professionals in the field of finance to SMC. As per the negotiated Terms of Reference, however, the SMC is large, and also comprises multiple representatives of CPR and the donor community, thus limiting regular consultations. Formal SMC meetings are expensive and time-consuming to organize, meaning that the full SMC as documented met only in September 2008, March 2009 and October 2010. Although there were consultations between the head of the Urban Finance Branch and the SMC chair, periodic communications on transactions between the ERSO Unit and SMC expert members, and consultations from time to time between SMC and the ERSO Unit by phone and/or e-mail, communication was generally poor.
92. The low frequency of meetings may have been caused by the high cost associated with convening SMC meetings, pointing to questions regarding adequacy of resources and optimal governance structures. One possible solution would be for SMC to split into thematic groups, such as a credit review committee, a financial and risk committee, an audit committee, and a reputational- and target population committee. It might have been easier for small groups to meet more frequently between the main meetings to provide advice and guidance on content and industry best practice to the ERSO team, and even more importantly, to senior management.
93. Furthermore, the extent to which SMC had access to the Executive Director to explain and, in turn, receive advice and guidance on the ERSO team, or whether the ERSO team was exposed to twin directives, is unclear.

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<sup>30</sup> Interview with SMC Chair.

TABLE 3.6: Comparison between lending programmes in the United Nations system

Issues	UN-Habitat	UNCDF <sup>31</sup>	IFAD <sup>32</sup>
Name of programme	ERSO, Experimental Reimbursable Seeding Operation	United Nations Capital Development Fund	The International Fund for Agricultural Development
Lending mandate	General Assembly resolution 32/451 of December 1977; United Nations financial regulations 5.10 and 9.4. resolution 21/10 of the Governing Council of UN-Habitat.	In its resolutions 2186 (XXI) of 13 December 1966, 2321 (XXII) of 15 December 1967 and 3122 (XXVIII) of 13 December 1973, the General Assembly established the UNCDF with a mandate to assist developing countries, "first and foremost the least developed" amongst them, "in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans". UNCDF now concentrates its investments in two areas: local development and microfinance.	IFAD is a specialized agency of the United Nations, which formally came into existence on 30 November 1977.
Aim	The strategic goal of the ERSO programme is to increase sustainable financing for affordable and social housing and infrastructure through field-testing innovative financial mechanisms during a four-year experimental period.	"The purpose of the Capital Development Fund shall be to assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans, particularly long-term loans made free of interest or at low interest rates. Such assistance shall be directed towards the achievements of the accelerated and self-sustained growth of the economies of those countries and shall be oriented towards the diversification of their economies, with due regard to the need for industrial development as a basis for economic and social progress." UNCDF offers a unique combination of investment capital, capacity-building and technical advisory services to promote microfinance and local development in the least developed countries.	The objective of the Fund is to mobilize additional resources to be made available on concessional terms primarily for financing projects specifically designed to improve food production systems, the nutritional level of the poorest populations in developing countries and the conditions of their lives. IFAD mobilizes resources and knowledge through a dynamic coalition of the rural poor, governments, financial and development institutions, non-governmental organizations and the private sector, including co-financing. Financing from non-replenishment sources in the form of supplementary funds and human resources forms an integral part of IFAD operational activities.
Yearly contributions (USD)	(Total for four years) 3,669,569	36,500,000	369,644,506

<sup>31</sup> UNCDF(2009). Annual report.<sup>32</sup> IFAD(2009). Annual Report, and Carla Dellanave, IFAD.

Investment or lending/grants (per cent)	100% lending	Grants and lending; 60 % investment or lending.	Grants and Lending; 93,5 % lending to countries with low debt sustainability: 100 per cent grant to countries with medium debt sustainability: 50 per cent grant and 50 per cent loan to countries with high debt sustainability: 100 per cent loan
Outstanding portfolio (USD)	2,750,000	125,000,000,000	717,500,000,000
Outstanding number of loans/projects	5	68	221
Average loan size, min/max (USD)	250,000/1,000,000	150,000/6,000,000	19,700,000
Type of loan: development loan/working capital loan	Working capital loan	Bond investment and development loans	Bond investments and development loans
Type of borrower: Financial intermediary/end user	Financial intermediary (MFI)	Investments are made in capacity-building, capitalization of MFIs and other FSPs, financial infrastructure and improvements in the policy, legal and regulatory environments.	Developing member States or intergovernmental organizations in which such members participate.
Current Organizational Structures	Urban Finance Branch (Team), Chief is the head of the Team, reporting to the Director, of the Head of Division, who report to the Executive Director, UN-Habitat	The UNDP Administrator serves simultaneously as the Managing Director of UNCDF. UNCDF reports through the Managing Director to the UNDP Executive Board.	The IFAD Executive Director reports to the Governing Council of IFAD.
Current staffing on board	5	127	235
Annual management budget (USD)	1,500,000	Unknown	147,089,000
Calculated risk profile—(high/ equity like investment: low/ lending against collateral)	High	UNCDF investment capital is flexible, high-risk and innovative.	Middle to high.
Institutional arrangement—peer review other IFI	Best practice—prudent banking operations.	Best practice as per other IFIs and basis of preparation of annual financial statements is in accordance with IFRS.	Best practice as per other IFIs and basis of preparation of annual financial statements is in accordance with IFRS, previously IAS since inception.

It is also unclear from the interviews how the supposed teaming of the ERSO Unit with the Internal/CPR Working Group on the daily business performed. From the documentation, it is noticeable that the two groups discussed institutional arrangements from widely differing perspectives in time-consuming e-mails. This probably delayed implementation of the ERSO programme.

94. In addition, the respondents<sup>33</sup> point to misunderstandings between UN-Habitat ERSO management and CPR attributed to a lack of frank and fluid communication.<sup>34</sup> SMC and CPR had some misunderstandings, but the situation improved during the last year of the experimental period, when SMC and CPR began working in tandem to ensure support of the ERSO programme, with SMC providing advice on the strategic direction of the programme and CPR providing more operational support to ensure the compatibility of ERSO with overall UN-Habitat objectives. Together the two committees contributed to improved effectiveness of the programme in the experimental period. CPR, as a political organization, was very useful in providing the political context of ERSO programme activities.
95. Respondents and some interviewees argued that the ERSO programme needed to be seen as part of a long-term exercise of building within UN-Habitat a catalytic lending facility, with a very precise set of services and loan products, and with administrative systems in place to offer support. The programme had provided a vital step forward in that larger exercise, offering examples of services and product systems. An important but often poorly recognized by-product of the ERSO programme was that the lending had created the need for UN-Habitat to strengthen its internal financial and accounting systems. There was therefore a need to support a

future ERSO programme with three distinct governance functions: broad policy advice (CPR), programme policy advice (SMC), and a credit review committee (a third, independent body to be created).

96. Lastly, many stakeholders were convinced that it was important for the ERSO programme to have a track record. A successful pipeline of projects would serve as a reference point for national Governments. They would then be better placed to establish policies and incentives designed to encourage private lending for affordable housing and local self-government with autonomy to issue debt instruments. The deeper problem was that national Governments were not interested in leveraging public investments. The political pressure for Governments to continue building public housing through private partnership remained lucrative. The principal department of central governments was the ministry of finance, not the ministry of housing. Its role in second generation financial sector reforms was key and UN-Habitat needed to engage with ministries of finance to share lessons learned from the ERSO programme.

### 3.4 FINDINGS ON COMPARISON BETWEEN LENDING PROGRAMMES IN THE UNITED NATIONS SYSTEM

97. Programmes and operations in the United Nations system with a lending mandate, such as UNCDF and IFAD, were reviewed on the basis of a comparative analysis of their objectives and organizational structures as summarized in Table 3.6.
98. The evaluation found that the ERSO programme had a similar strategy and structure to those of UNCDF and IFAD. IFAD operates exclusively in the agricultural sector, while UNCDF has operations in microlending, which include a percentage of microlending

<sup>33</sup> ERSO staff and members of SMC.

<sup>34</sup> According to various internal documents circulated at the beginning of the implementation period.

for affordable housing, with a comparable strategy to that of the ERSO programme. UNCDF is also launching an initiative on local municipal finance and infrastructure finance.

99. Both UNCDF and IFAD have portfolios much larger than the ERSO programme and have been in the market since the late 1970s. According to statements in their annual reports, they also have upto-date lending programme platforms and systems. It appears worthwhile to explore future partnership with UNCDF, which has strategies similar to those of the ERSO programme. Both organizations may be suitable technical partners for the ERSO lending programme and for discussions about sharing lending platforms and systems.

### 3.5 FINDINGS ON THE INNOVATIVE MECHANISM

100. An innovative financial mechanism should involve a creative idea that involves conceiving and implementing a new way of mobilizing and channelling financial resources. This could be, for example, through the incorporation of new elements, a new combination of existing elements or a significant change or departure from the traditional practice. It should offer effective, creative and unique answers to new problems or new answers to old problems, and may be further transformed by those who adopt it. An innovative financial mechanism may take the form of new products, new policies and programmes, new approaches and new processes. New products and new marketable funding instruments can be used to attract public and private investments in housing activities and projects. Given the broad range of future environmental, economic and social gains arising from housing activities, there are ample opportunities for UN-Habitat to support new products nationally and internationally.
101. The new strategy for housing activities under development in the ERSO programme has offered opportunities to develop new programmes for use by developing countries and countries with economies in transition in mobilizing resources. There have also been new approaches, including the introduction of new forms of financial mechanisms, to improve the quality of financial resource mobilization. Depending on the stage of housing activities management, a financial mechanism may be considered well-established in one geographical context while being regarded as innovative in another.
102. The rationale for the ERSO programme intervention was embodied in the words “experimental”, “innovative”, “leverage” and “catalytic”. The idea behind the programme was to encourage lending and investment in affordable housing in developing countries and emerging markets by mitigating key risks. The programme applies both to physical housing projects and more generally to the promotion of local capital markets as suppliers of finance. The latter operates through the credit enhancement of local borrowers and bond issuers, and the development of new types of local financial institution.
103. The ERSO programme was not preceded by a feasibility study in which those central key words could have been defined before the programme was made operational, nor was there any attempt to define them in any operational guidance, as far as can be judged by a review of the documents provided for the evaluation. Open-ended interviews with stakeholders revealed what might characterize experimental, leverage and catalytic methods, but there were widely divergent opinions on what the term “innovative financial mechanism” might mean. In the first phase, the consensus among parties involved in the negotiations during 2007–2008 was that “innovative financial mechanisms” were defined as extending loan finance to low-income groups, which explains why the first ERSO project loans came (among other elements) with interest subsidies as the feature of innovative financial mechanism. This approach and definition of “innovation” reflected clear requests

from UN-Habitat oversight bodies, voiced in a series of meetings between September 2007 and April 2008.<sup>35</sup> In fact, the explicit goal of experimenting with extending loan finance to the urban poor was defined as the ultimate goal of the experimental period, rather than “leveraging” resources. The last two ERSO loans were financially innovative in the sense of leveraging the initial capital input and high-quality structuring. No criticism is implied here, although, to make a programme operational on those terms, it might have been easier to have some sort of acceptable definition contextualizing those terms within the organization.

104. With regard to relevance, the evaluator found that the innovative mechanisms of long-term capital should be considered before the more developmental financial mechanisms, such as subsidized interest rates.<sup>36</sup> Respondents suggested that it would be better to find appropriate cost recovery models that did not distort local markets and could, therefore, be replicated to stimulate growth in low-income lending. In fact, given that the ERSO programme is designed to explore the need for incentives, all exploratory incentives are appropriate, even equity participation, and the projects funded in the experimental period underscores the need. The ERSO programme approach was useful in encouraging banks to enter new markets, but it requires strong due diligence and risk mitigation measures to ensure that projects poses as few risks as possible.
105. With regard to innovativeness, respondents pointed to the proposed forthcoming final pilot that the ERSO programme was currently considering, the Global Microhousing Facility,

with IFC, KfW and Standard Chartered.<sup>37</sup> The long-term nature of this arrangement is designed to attract longer tenor and affordable funding sources to facilitate expansion of microhousing credits to low-income recipients in various countries in sub-Saharan Africa and Asia. This would be a new experiment with excellent potential catalytic effect. The ability to leverage other substantial financial resources and in kind support from public and private sources, and to initiate government support, has added value to the overall experimental phase of the ERSO programme.

106. It is not easy to define the term “innovative financial mechanism” as it is a moving target depending on the local circumstances. It is, however, easier to tell whether a loan is traditional or innovative, based on, for example, subsidized interest rates. In Table 3.4, only the disbursed loans to SAKAN and PRODEL can be said to have some component of innovative financial mechanisms, such as the first-loss loan (SAKAN) and near-to-market interest rates for microfinance institution (PRODEL). The pending experimental loan to be developed in partnership with international financing institutions may be characterized as innovative thinking in that it is proposed to work through an international bank capital base and use its extensive financial infrastructural network in numerous developing countries to reach target groups.
107. This is not to say that the loans to Azania Bank, DFCU and HFHI did not have merit in development terms and also in terms of ERSO programme requisites, especially capacity-building. The evaluation found that the site management of HFHI Nepal learned

<sup>35</sup> Remarks made by the former coordinator of the ERSO programme.

<sup>36</sup> Not necessarily, however; normally interventions take place where there is hardly any lending from the local financial sector, so there is no one to crowd out. Even with a subsidized lending programme, the exposure to lending for a type of project or type of organization can be the trigger for a more sustainable lending base. A subsidized lending programme is not sustainable, however, and does not necessarily achieve the proposed objectives of the ERSO lending programme for longer-term, sustainable sources of lending; where the subsidy needs to be separated from the loan, it should take a different form. Lowering the cost of capital (interest rates) can prime a nascent market, even if it is not sustainable in the long term; similarly, lowering the risk domestic financial institutions face as an incentive to lend downmarket is not sustainable.

<sup>37</sup> See Annex V.

how to write business plans from the ERSO programme exercise when applying for an ERSO loan. The same methodology is being used to target prudent borrowers with their own business. In the case of DFCU, the field visit interviews revealed that the bank learned that the target group was willing to open a bank account to save its part of the project agreement. Based on the acquired capacity, the bank has taken action to work for the first time with similar projects in Uganda. Furthermore, local authority officials in Kampala are increasing their capacity by seeking to apply the ERSO programme loans approach to 20 other slum sites within the city limits on the land owned by the Buganda Kingdom.

108. In short, the characteristics of an “innovative financial mechanism” include:
- (a) Maximizing the ability of project sponsors effectively to leverage donor capital for needed investment in the affordable housing system;
  - (b) Using existing funds more effectively and sustainably;
  - (c) Moving projects into construction more efficiently and swiftly than under traditional financing mechanisms; and
  - (d) Making possible major affordable

housing investments that might not otherwise receive financing.

### 3.6 FINDINGS ON COLLABORATION WITHIN THE UNITED NATIONS AND WITH PARTNERS

109. Documents and loan agreements showed that ERSO programme loans were developed in partnership with international and local partners, including local government and domestic banks. In the Occupied Palestinian Territory, Uganda and the United Republic of Tanzania, ERSO partnered local banks, while in Nepal and Nicaragua the financial partner institutions were mainly village banks or savings cooperatives and microfinance institutions. Each project has its own type of collaboration with financial institutions, depending on the local situation (Table 3.7).
110. Interviewees wondered whether UN-Habitat was serious in becoming a major player in low-income housing microfinance and finance for slum upgrading. Some recommended that UN-Habitat should be part of a larger partnership arrangement if it wished to gain access to the amount of resources needed in the long term, as doing so would mean making use of the capacity and systems of institutions already in the financial sector.

**TABLE 3.7: ERSO programme collaboration with financial institutions to connect with target groups**

ERSO programme project	Partners	Type of collaboration with financial institutions to engage with target groups
Azania Bank Limited, United Republic of Tanzania	Azania Bank; Mwanza Municipal Council	Enabling a private financial institution, Azania Bank, to extend finance to a municipal council for the purposes of a voluntary resettlement scheme for slum dwellers.
Habitat for Humanity International, Nepal	Habitat for Humanity International Nepal, local non-governmental organizations	Encouraging cooperative members to save together for housing, in combination with financing through village banks or saving cooperatives individual end-users with assistance and supervision of non-governmental organizations.

Palestinian Affordable Housing Foundation (SAKAN), Occupied Palestinian Territory	Palestine Investment Fund, OPIC, IFC, Bank of Palestine, Cairo Amman Bank, DFID, Aspen Institute's MEII, CHF International, and World Bank technical assistance	It is intended that AMAL will enter into arrangements with local domestic banks, initially Bank of Palestine and Cairo Amman Bank, which will in turn provide finance to potential purchasers of the affordable housing units under construction, initially in the form of fixed or adjustable rate loans, and, in the future, Sharia-compliant financing. AMAL will then purchase these loans from the originating banks so as to provide additional liquidity for additional affordable housing finance activity by the banks.
DFCU Bank Limited, Uganda	DFCU Bank, Ministry of Housing, Tororo municipality, Kasoli Housing Association	Establishing a partnership between a private housing finance organization, DFCU, national and local government and community groups to finance and implement low-income housing through a private sector-based delivery model.
Fundación para la Promoción de Desarrollo Local (PRODEL), Nicaragua	PRODEL, local non-governmental organizations/microfinance institutions	PRODEL provides funds to microfinance institutions, cooperatives and municipalities. It accompanies its funding with credit technology, including designed products and technical assistance programmes to MFIs and end-users. All PRODEL funds are used for low-income families, typically those earning between USD 1 and USD 4 a day.

Generally, UN-Habitat does not yet have a lender image in the market and its proposed credit and funding processes have longer-term implications than those of other institutions.

111. Through ERSO, UN-Habitat has therefore gained experience and established working relationships with local authorities, urban poor organizations and domestic financial institutions. It has a mandate to empower people living in poverty to realize their productive capacity and does not represent the interests of one country. As such, its catalytic role in lending can provide services and meet needs in ways that international financial institutions cannot, and can serve as a bridge for some international and domestic financial institutions to reach underserved markets with much-needed financial services for the purpose of affordable housing and basic services. Once UN-Habitat acquires the requisite funding and capacity, it could provide

a service that meets a demand that cannot adequately be met by other institutions.

112. The ERSO team was active in searching for partnerships with relevant business associates and local government stakeholders. Because the programme was designed as a pilot project, information about the approach and documentation of experiences was inherent to the approach from the outset. Elements included presentation of the operations in consultation with potential partners and countries; presentation of the programme design during expert and regional workshops; and publications on the experiences at the technical and popular levels. Key UN-Habitat forums, such as the fourth session of the World Urban Forum and the twenty-second and twenty-third sessions of the Governing Council, were significant events for dissemination of ERSO information. The pending sixth loan was developed in

collaboration with international partners KfW and IFC,<sup>38</sup> as presented during a seminar held in Stockholm in 2010. Besides sharing knowledge about the ERSO programme operations, UN-Habitat has also been engaged in research efforts to compile and document innovative mechanisms and best practices in human settlements financing for low-income households undertaken by other organizations.

### 3.7 FINDINGS ON INTERNATIONAL BEST PRACTICE WITH REGARD TO THE DELIVERY OF FINANCE FOR LOW-INCOME HOUSING

113. "Best practice" is a relative term because best practices are constantly changing and being updated. Experimentation constantly informs the understanding of what best practices are. Table 3.8 lists some international best practices with regard to the delivery of finance for low-income housing. Keywords and concepts include targeting the poor, expandability/replicability, evaluation of competitive advantage and impact, sustainability, multisector partnerships, community engagement, gender sensitivity, cultural/social sensitivity, innovative combination of financing low-income housing, community intermediaries and human capacity-building. Best practices are derived from various sources, including reflections on the nature of poverty, community development principles and practices, theories of communication and learning, and observations from financing low-income housing case studies.
114. Table 3.8 also gives a brief overview of some successful low-cost financing delivery systems. Generally, making best use of the available knowledge, leveraging resources, partnering and providing support services are among the best practices. In all the ERSO programme projects loans this has been the case. As an example, partnering with

community organizations, banks and other financial intermediaries such as the project loans to SAKAN, PRODEL, DFCU and HFHI, their early accomplishment is reported by project managers to follow this best practice.

115. With regard to the delivery of finance for low-income housing, the ERSO programme is close to best practice. From the evidence available, the evaluation found no serious damaging external factors that interrupted the implementation of the programme or its project loans. On the contrary, collaboration with international and local finance institutions helped the programme to deliver its services at or close to the best practice level. Although it was difficult for the evaluation to make comparisons with other best practices, materials obtained from FinMark Trust following web-based research helped considerably.
116. The ERSO programme has demonstrated that its loan projects have developmental merits for end beneficiaries and perform close to best practice. Because none of the projects have yet been completed, however, it is difficult to form a meaningful opinion on how great the impact may be for the target population in the future. On the other hand, it is possible to anticipate that the future result of the ERSO programme will be positive, affordable, replicable and sustainable, if it is well-managed.

### 3.8 FINDINGS ON THE ERSO PROGRAMME TARGET GROUPS

117. Although most respondents (Annex IV, Figure 5) alluded to the innovativeness of the ERSO programme, most were unable to confirm its development impacts, apart from some facts that represent an impact in themselves use, for example, the establishment of AMAL in the Occupied Palestinian Territory; the disbursement of loans to 766 families in

<sup>38</sup> There is a note on the structure of the project in Annex V.

Nepal; and the establishment of a lending programme for neighbourhood infrastructure in Nicaragua. The Nepal, Nicaragua and Occupied Palestinian Territory projects, in particular are likely to show immediate impact, both in terms of strengthened institutions and actual project results, which are already apparent: Even if the ERSO programme does

not continue, it may have contributed to creating awareness of the need to support affordable housing finance.

118. This observation may be understandable in view of the fact that none of the ERSO projects is yet fully completed, but the fact that ERSO is delivering projects with a new operating model is an innovation in itself.

**TABLE 3.8: International best practices with regard to the delivery of finance for low-income housing**

Issue	International best practice	What best practices made this delivery system work?
Partnering with community organizations, banks and other financial intermediaries	Increasingly, financial institutions are entering into documented agreements with either financial institutions or intermediary organizations. These agreements tend to be quite specific and set specific targets for numbers of loans and dollar amounts and usually cover a period of several years. The financial institution then proceeds to make the agreed funds available to the community organizations, which implement, the plan or, in the case of an intermediary group, distributes the funds to other community organizations.	The community has frequent meetings with the bank staff members, maintaining open lines of communication and a platform to discuss any controversy. The programme uses community groups to deliver workshops and training sessions. This is crucial since local residents have more trust in local community groups than in banks. The community establishes an advisory committee to oversee the development of the agreement. This allows the best thinking and a vast knowledge-base to benefit the negotiations. Habitat for Humanity's work in Uganda is an example. They worked with UGAFODE to develop a housing microloan product that extended Ugafode's microloans business, while also promoting quality housing investment. The ERSO project in Uganda is close to this best practice.
Developing formal community development financial institution (CDFI) investment programmes	As financial institutions have become more knowledgeable about investing their funds, some have begun to develop their own staffed investment programmes. In general, the programmes have at least one dedicated staff member who implements the corporate plan.	The programme has a clearly defined and measurable strategy. The bank makes use of its knowledge about community investing to select effective partners. The bank looks for additional opportunities to work with its CDFI partners that will benefit both organizations. The bank staffs the programme and provides administrative support to its partners. Standard Bank's Community Banking initiative in South Africa may fit this description.
Investing in Community Development Financial Institutions	In addition to developing formal CDFI investment programmes, banks also invest in individual CDFIs. Commonly they invest in CDFI venture capital funds, credit unions, intermediaries, and loan funds.	The intermediary uses its position to leverage funds from a wide variety of sources, including both public and private. The affiliated CDFIs are able to share knowledge and resources among themselves, but operate along specialized lines, thereby optimizing efficiency.

Creating community development corporations (CDC)	In addition to agreements, partnerships and CDFI programmes, another investment option that the more community investment-savvy financial institutions have chosen is the creation of CDCs. Either independently or in association with other financial institutions, they incorporate independent CDCs that are mission-driven and effective. The financial institutions then funnel their CRA dollars into the CDCs.	The banks make lasting use of their money by creating a community resource. The CDC will support the needs of the community as determined by the CDC rather than the banks. The banks pool their resources to create a more significant programme.
Investing in mutual funds	Another common and increasingly popular way for financial institutions to meet requirements is investing in mutual-like funds. Organizations offer these investment funds and market them as qualified investment funds. In this manner, the financial institution is guaranteed to meet its CRA requirements without having to invest time and effort in researching appropriate investment opportunities.	By reducing the burden on individual financial institutions through the effectual outsourcing of CRA compliance, more dollars reach low-income communities. The mutual fund company uses its position to leverage funds from a wide variety of sources, including public and private.
Bank enterprise award programme	The CDFI Fund offers support to banks through the Bank Enterprise Award Programme (BEA). The programme is designed to provide monetary awards to banks that increase their investments in CDFIs and/or lending, investment, and service activities in distressed communities. The programme serves to put more capital to work in communities where it is needed.	The BEA programme provides an effective incentive for reinvestment in communities.  The CDC creates a community resource that will also be valuable to its own staff.  The CD bank leverages funds from other sources to increase the size and scope of the programme.
Making use of the best available knowledge	The best programmes utilize community groups that are knowledgeable about the target groups, actively solicit input from advisors and partners, and apply lessons learned. The ERSO programme is close to this practice.	
Leveraging resources	The best programmes make the best use of funds by using their funds to leverage other dollars and resources to increase the impact of their work. The ERSO programme is close to this practice.	
Partnering	The best programmes partner with other groups to bring together the most effective resources and broaden the effects of their work. The ERSO programme is close to this practice.	
Support Services	The best programmes offer useful support services that complement their product offerings. The ERSO programme is close to this practice.	

119. During the ERSO programme consultation phase with CPR in late 2007 and early 2008, the concept of targeting low-income populations received much attention. Against the background of the CPR stipulations made in 2007–2008, one important question for the evaluation was whether ERSO operations supported low-income families or the middle

class. This evaluation gathered primary data and investigated the income levels of the households served, relating them to the relevant country's income percentiles. As it was not known who the future beneficiaries of three of the loan projects will be, however, the evaluator used the estimated target in the

- credit review, the continued validity of which was checked with the project managers.
120. Furthermore, the evaluator found the ERSO programme to be short of explicit population targets for its business. The expected indicators for the programme did not set an explicit and well defined indicator for the low-income household target. According to the project managers, however, it appears that the ERSO projects targeted low-income households in the countries and territories, with the exception of the Occupied Palestinian Territory, where the project was designed to target low-income to middle-income households.
  121. ERSO activities need to be explicit about the beneficiary populations based on baselines and agreed targets. Contrary to down-market aims, establishing a sound reputation in financial markets and sustaining a high quality and expanding portfolio can lead to a new affordable housing financier upmarket by targeting higher income borrowers with larger loans. Markets perceive such loans as less risky and less costly to manage, while contributing to business growth. However, the explicit targets have to be set realistically in a financial lending context in order not to nullify the innovative approach. This is highlighted as a lesson learned from the evaluation.
  122. The ERSO programme projects were all in countries or territories defined<sup>39</sup> as low-income or lower middle-income economies (Table 3.9).
  123. The intended target groups in ERSO programme countries have been reached or almost reached (Table 3.10):
    - (a) In the case of the Occupied Palestinian Territory, the plan is to reach low-income to middle-income target groups. Construction of houses is under way and it is estimated that they will be ready to receive the first households by summer 2011;
    - (b) In Nepal and Nicaragua, the target was the lowest income household percentile. That target was met. The projects are in place and running to schedule;
    - (c) In Uganda and the United Republic of Tanzania, the target was and remains the lower income household percentiles. The projects are in the planning phase, however; the beginning of the construction stage is planned for 2011.
  124. Various organizations, including non-governmental organizations, are considering housing finance programmes that may draw lessons from the ERSO programme experience on target groups. The ERSO programme could therefore help to change the discussion around low-income housing finance as lessons learned are made available. The ERSO programme is both new and small. Although it is difficult to judge its impact, the programme is projected to reach a significant number of households, even with its small amount of funds. The ERSO programme may be a leader in demonstrating that housing finance loans to the underserved can be effectively repaid.
  125. The programme has provided evidence of what catalytic lending is and how it works, and how UN-Habitat plays a necessary, complementary role in the sector. It has also demonstrated that community savings, public investment and private capital are the three key ingredients for sustainable financing of human settlements development, with focus on affordable housing for low-income groups. Moreover, it has demonstrated to Governments an alternative to straight public service delivery, and shown UN-Habitat staff that it is possible to diversify sources of finance.

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<sup>39</sup> The World Bank.

TABLE 3.9: Gross domestic product per capita in ERSO programme countries or territories

Rank <sup>1</sup>	Country or territory	Gross domestic product (nominal) per capita (USD)	Household income by percentage share (%)	Year
133	Occupied Palestinian Territory	1,700	lowest 10%: less than NIS 1,500/\$366 highest 20%: more than NIS 5,000/ \$1221	2008/ Ramallah district 2007
149	Nicaragua	1,100	lowest 10%: 1.4% highest 10%: 41.8%	2010 est./ 2005
172	United Republic of Tanzania	500	lowest 10%: 2.6% highest 10%: 34.1%	2010 est./2005
175	Uganda	500	lowest 10%: 2.6% highest 10%: 34.1%	2010 est/2005
182	Nepal	400	lowest 10%: 6% highest 10%: 40.6%	2010 est./ 2008
	Global average low-income economies	512		2009
	Global average lower middle-income economies	2316		2009

Source: World Development Indicators database, The World Bank, 15 December 2010, CIA World Factbook 2010, and Palestinian Central Bureau of Statistics

<sup>1</sup> Ranking based on 191 countries

126. Respondents felt that UN-Habitat should be a leader in housing finance for specific low-income target groups, laying out a range of models (with varying degrees of targeted subsidy) for each population segment. The ERSO programme would fit in as one of those models. UN-Habitat should present the programme as one model and then present others for other population segments. It does not have to provide technical assistance on all models for all segments, but it should be in a position to map the range of models and refer institutions or individuals to other models and those who are promoting them. The ERSO programme and other similar initiatives offer alternative models for tackling the housing crisis at scale. If UN-Habitat confines itself to one-off housing projects in cities with large housing stock deficits, there is a risk that they would be taken by the middle class and that low-income households would sell their houses in order to obtain money for basic needs such as paying school fees.
127. As can be seen from Table 3.10, the five ERSO lending projects reviewed will reach over 110,000 low-and lower-middle income beneficiaries in bottom income deciles two to five.
128. Some respondents were of the opinion that UN-Habitat should continue the ERSO programme, preferably under another name and with clearly defined functions. Other institutions could pick up the programme, but they lacked the legitimacy of UN-Habitat, with its mandate and track record of working with urban low-income households, local authorities and domestic financial institutions. Other respondents considered ERSO best placed to focus on the thematic aspects, targeting the urban poor through housing and infrastructure finance, rather

TABLE 3.10: ERSO programme project beneficiaries

Lending programme beneficiaries/ indicators	Number	Income level	Av. monthly income per household (USD)	Intended target groups when signing loan agreement <sup>40</sup>
Nepal	4,810	Bottom 30%	75	900 families (approximately 3,600 individuals). These families belong to the bottom income deciles: extremely poor.
Uganda	1,250	Bottom 30%	230	The loan is to resettle low-income households in phases in serviced, well-planned, titled plots and the development and sale of property by the municipality for low-income, middle-income and high-income residential users, in addition to commercial facilities.
United Republic of Tanzania	2,800	Bottom 50%	136–1200	To provide partial portfolio finance for long-term lending to purchasers of 125 affordable houses in phase 1 and another 125 houses in phase 2. Borrowers are members of Kasoli Housing Association. The houses will be mortgaged to low-income earners.
Nicaragua	14,420	Bottom 10%	128–194	Enabling lower-income and lowest-income deciles target populations to improve their livelihoods, add to the safety and quality of their neighbourhoods, improve their places of work and improve the quality of their homes and their access to services.
Occupied Palestinian Territory	95,000	Bottom 50%	684–1,164	Low-income to middle-income public sector workers, including teachers and nurses, in the Occupied Palestinian Territory.
Total	118,280	10–50%	370 (midpoint of range)	

Source: UFB staff and project site managers

than technical loan administration. The ERSO Programme Unit should also provide internal support and outreach within UN-Habitat, e.g., in utility, infrastructure or local government finance (strengthening financial management of local actors and assistance in the path towards institutional creditworthiness).

129. ERSO is relevant and should be continued since it has created strong interest in several countries and conveyed normative messages (with attention to housing finance for urban low-income households) through effective operational engagements and catalytic financing. The programme also

established many new partnerships with financial institutions, other private-sector partners and community groups in the pilot countries. Some respondents felt, however, that ERSO would be discredited as a result of institutional challenges and closed down before it had had a chance to show its full development impact potential. They argued that it was pointless to force the programme to continue with inadequate resources and/or within an inappropriate institutional and governance setting.

<sup>40</sup> ERSO programme project credit memorandum.

### 3.9 FINDINGS ON TECHNICAL AND FINANCIAL RISKS

130. The absence of a feasibility study on how the ERSO programme might run led the in-house managers to devote time to drafting operational manuals. The manuals went through a number of development phases. The first, undocumented, internally developed manual was not regarded as feasible by the Swedbank expert banking consultants.<sup>41</sup> A second set of manuals was discussed early in 2008 by SMC and CPR, but CPR raised concerns about the scope of the operation manual. This manual was revised in early 2009, but was found not to be based on lending experience in the United Nations system. A more streamlined manual was developed quite late on, based on loan-closing experience, and was passed by SMC in October 2010.
131. UN-Habitat staff and SMC were of the opinion that the ERSO management had been forced to spend a disproportionate amount of time and effort on creating the appropriate internal systems and buy-in for the programme, resources that could have been used for fund-raising and building a robust project pipeline. The Urban Finance Branch, Programme Support Division and United Nations Office at Nairobi staff also acknowledged that, during stakeholder interviews, several discussions had taken place around those administrative issues. The Urban Finance Branch staff first explained the need for such systems and had discussions on how to acquire them. These include deficiencies in postclosing loan administration, due to limited support functions and knowledge of loan administration within the Programme Support Division and the United Nations Office at Nairobi, and delays in resolving administrative issues in time<sup>42</sup>.
132. During interviews, both Programme Support Division and United Nations Office at Nairobi staff acknowledged that the above administrative issues were real and a serious weakness for the operation of a lending programme. These issues were documented in April 2008 and the following risks are highlighted:
- (a) The key assumption of the ERSO Project Document is that the Agency will provide the leadership and manage the overall process, recruit professionals with finance expertise to serve in the ERSO Team, harness the expertise of international financial institutions through partnerships, and contract the services of external, private entities at domestic level to prepare select outputs. Another internal risk relates to the capacity of administrative units of UN-Habitat and UNON to provide the necessary support for implementing ERSO operations.
  - (b) Internally, the Professional Staff of UN-Habitat may be unable to contribute effectively to the development of ERSO; ERSO is addressing these potential risks by strong consultation within the Human Settlements Financing Division and with the units of other Divisions. To address other internal risks outlined, ERSO will internally emphasize the importance of the experimental activities to enable strong support from administrative units within UN-Habitat/PSD and UNON.
133. The evaluator found no internal mailing list attached to the document, but it is not implausible to assume that it was circulated to all heads of UN-Habitat divisions, since the ERSO programme was greatly debated as a new initiative in the organization. It is not clear why, when the ERSO programme

<sup>41</sup> From interview.

<sup>42</sup> Annex XI for a more detailed list.

- management requested administrative system support from the Programme Support Division and/or the United Nations Office at Nairobi from the beginning of the programme, it was not until two years later that the new management wrote in a report document to CPR about the next steps of the programme, "Set-up of loan administration for portfolio (cash management, IAS accounting, loan performance tracking, payment processing)".<sup>43</sup> There was concern among the respondents that the ERSO programme had not yet managed to build a robust lending platform within the United Nations system.
134. The ERSO programme operational manuals,<sup>44</sup> which were produced as negotiated documents with CPR<sup>45</sup> under Governing Council resolution 21/10, make few references to how to operate the loan administration of the programme until the latest manual of September 2010, which includes a chapter offering guidance on post-closing transaction monitoring. With reference to the working lending operation in UNCDF and IFAD, however, there is no evidence that it is not feasible to build a best practice support system for loan administration within the United Nations system. In interviews, the Programme Support Division and United Nations Office at Nairobi management acknowledged difficulties in and/or opposition to investing in an expensive administrative loan system when the ERSO programme loan portfolio was still so small and so close to the end of its experimental period.
135. To solve the administrative issue, the partners worked with the United Nations Treasury to outsource the necessary loan administration system support to an external service provider i.e., a bank recommended by the Treasury or a provider such as a Mauritius-based service agency, but concerns about issues such as security of data transportation led to time-consuming reviews of potential providers until it was too close to the end of the experimental period for a decision to be made.
136. Table 3.11 shows that the ERSO programme has achieved most of its objectives. The only significant exception is the internal implementation: without any impending external factors, it was a substantial period managed by trial and error, without a documented road map.
137. With regard to efficiency, the evaluation recognized that the ERSO projects faced challenges resulting from UN-Habitat bureaucracy (Annex IV, Figure 3). It is reasonably certain that the organization knew that the ERSO programme required support from the Programme Support Division and the United Nations Office at Nairobi. The ERSO management made efforts to overcome these problems by resorting to outside bona fide assistance<sup>46</sup> on cash management systems and a temporary loan portfolio system made by an in-house information technology manager. This may be adequate for a small loan portfolio, but an extended ERSO programme would have to install quality loan administrative solutions, both to manage the existing portfolio and to stay alive in forthcoming external evaluations and audits.

<sup>43</sup> UN-Habitat, ERSO and SUF Programme Progress 8 April 2010: 2010 Steps for ERSO Revolving Loan Programme.

<sup>44</sup> United Nations Habitat and Human Settlements Foundation: Policy Framework and Draft Operational procedures and guidelines, HSP/GC/21/5Add.3, 8 March 2007; Operations Manual, For Operational Activities of the United Nations, Habitat and Human Settlements Foundation, Experimental Reimbursable Seeding Operations, Trust Fund (ERSO) 19 February 2009; UN-Habitat, Urban Finance Branch, ERSO Programme – Operation Manual, September 2010.

<sup>45</sup> In-depth interview with Key CPR Representative.

<sup>46</sup> Interview with Chief of Urban Finance Branch.

138. A review of documents and stakeholder interviews revealed that administrative challenges might have impaired and slowed down the efficiency of the operation of the ERSO programme. If it was to play an efficient incubator role, it should have been afforded the opportunity to establish its own organizational infrastructure, even if that meant outsourcing some programming and financial (including back-office) activities and responsibilities. After all, the capacity to self-administer could provide an acid test of institutional viability. Another acid test would be evidence that the ERSO programme itself could operate in a budgetary and financially self-sustaining manner, as do international financial institutions. Cooperation in this regard with other like-minded United Nations agencies or international financial institutions could respond to both objectives.
139. Assessment of ERSO risks also focused on the programme's effectiveness, thus establishing how well UN-Habitat and partner organizations carried out actions necessary to achieve programme objectives and produce the expected results. The requirements for a quantitative assessment of management effectiveness are:

**TABLE 3.11: ERSO programme objectives collated with evaluation criteria and main findings**

Criteria <sup>47</sup> / ERSO objectives	Increase the effective demand for low-income housing, related infrastructures and upgrading by facilitating the access of low-income community groups and households to financing for adequate shelter solutions	Demonstrate to GC the technical, financial and institutional capacity of UN-Habitat to identify, prepare and influence innovative, reimbursable seeding operations that mobilize domestic investment capital and savings on a financially sustainable basis
Relevance	Yes (Tables 3.2/3.10), interviews, field trips	Yes (Table 3.4/ Annex IV, Figure 1), questionnaire, interviews
Effectiveness	Yes (Table 3.1/3.10/ Annex IV, Figure 2)	Yes (Table 3.1/ 3.5/ Annex IV, Figure 2)
Efficiency	Yes (Table 3.7)	No (Annex IV, Figure 3), document reviews, interviews & questionnaire on governance, loan administrative system, implementation & resources
Sustainability	Too early to say, but yes, in three cases: Nepal, Nicaragua and the Occupied Palestinian Territory (Annex IV, Figure 4)	Yes, project loans No, own funding, (Table 3.2/Annex IV, Figure 4)
Impact	Too early to say, but yes, in two cases: Nepal & Nicaragua (Table 3.10/ Annex IV, Figure 5)	Too early to say, (Annex IV, Figure 5)

<sup>47</sup> **Relevance:** The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies. Note: Retrospectively, the question of relevance often becomes a question as to whether the objectives of an intervention or its design are still appropriate given changed circumstances.

**Effectiveness:** The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance. Note: Also used as an aggregate measure of (or judgment about) the merit or worth of an activity, i.e. the extent to which an intervention has attained, or is expected to attain, its major relevant objectives efficiently in a sustainable fashion and with a positive institutional development impact. **Efficiency:** A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results. **Sustainability:** The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time. **Impact:** Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.

- (a) Data<sup>48</sup> that can be processed into information that is relevant and useful for managers;
  - (b) Information that can be used to plan, make informed decisions and guide evaluation of the extent to which planned results have been achieved;
  - (c) Plans that set quantitative targets and define indicators;
  - (d) A tool to provide information for planning, decision-making (implementation) and evaluation.
140. An evaluation such as this would normally place far more emphasis on analysing primary data and immediate evidence based on documentation on model operations, rather than relying too heavily on data represented by assessments from stakeholder interviews, a questionnaire and document reviews. The implementation of the ERSO programme was not, however, carried out following a documented feasibility study, which could then be used as a standard for comparison
- of actual performance with planned performance. In this case, implementation was preceded by extensive UN-Habitat meetings. An expert consultation process took place from 19 October to 5 November 2007. This was followed up with a formal workshop in early 2008.<sup>49</sup> An ERSO business plan was produced in October 2008. Because of the extensive consultation process and the project development and external partnership work, however, the approach during this phase did not focus on the establishment of technical systems for loan administrative back-office systems for ERSO programme operations, including post-closing loan administration, portfolio accounting and cash and treasury management.
141. Corresponding technical experts were introduced only one year before the end of the programme. It is essential for any future extended ERSO programme to install quality loan administrative solutions both to manage the existing portfolio and to stay alive in forthcoming external evaluations and audits.

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<sup>48</sup> The terms "data" and "information" are often used interchangeably. In the context of information management, however, they have clearly distinct meanings: data are facts that have been recorded and information is processed data.

<sup>49</sup> Annex XIII.

## 4. CONCLUSIONS, LESSONS LEARNED AND RECOMMENDATIONS



A construction site in Ramallah, Occupied Palestinian Territory © UN-Habitat

### 4.1 DESIGN AND IMPLEMENTATION MECHANISM

#### Conclusion

142. Most stakeholders are in favour of the concept of the ERSO programme and would like to see some form of a catalytic lending programme for affordable housing and basic services to be linked to the UN-Habitat work programme in the future. UN-Habitat underestimated the resources required to implement a lending operation programme within its administration, however, making the conclusion on the sustainability of the ERSO programme less precise. Limited financial resources, staffing capacity and administrative back-office support led most respondents to reject UN-Habitat as the preferred institution to operate the ERSO lending programme.

#### Lessons Learned

143. Urban development and housing projects with a financial component require a sufficient number of financial services experts on board to provide support in order to

ensure successful implementation (Lesson learned 1).

#### Recommendations

144. UN-Habitat should continue to support the ERSO programme because of its relevance. Given the observed challenges and inefficiency within its administration and therefore the high risk for the programme to contribute effectively to the UN-Habitat mandate, it is recommended that there be a finance-related permanent initiative at UN-Habitat which, with a serious commitment from UN-Habitat, could effectively and efficiently continue to enhance achievement of the goals of the ERSO programme. This would take the form either of (Recommendation 1):

- (a) A permanent scaled lending programme within UN-Habitat. This option would only work effectively if backed up by strong commitment and adequate resources from UN-Habitat. Assuming that a permanent financial lending programme is established, if it is to be justifiable in terms of administrative costing, would operate a larger loan

portfolio of 20–50 projects amounting to some USD 20 million, the evaluation recommends the following complementary options:

- An initial contribution of capital (optional USD 4 million) by UN-Habitat;
- Staff of seven to ten<sup>50</sup> professionals and an annual budget of USD 2 million–2.5 million,<sup>51</sup>
- UN-Habitat to invest in an efficient administrative lending and support system.

Or in the form of:

- (b) A permanent laboratory pilot-by-pilot concept lending programme within UN-Habitat. The application of this option however would require strong commitment and adequate resources on the part of UN-Habitat. Running a pilot lending programme requires many of the same functions as a scaled lending programme, although on a smaller scale.
145. Based on the experience gained from ERSO, a review study is recommended to assess whether a future operational UN-Habitat ERSO programme could best be implemented as an in-house or outsourced initiative; by UN-Habitat alone or in partnership with other United Nations agencies (Recommendation 2).
146. Furthermore, based on the experience gained from ERSO governance, UN-Habitat should facilitate the establishment of an international financial institution board, to be chaired by the Executive Director of UN-Habitat and of which the director of the future ERSO programme would be a member. The other board members should have financial expertise and development experience. The board should, from its membership, set up at least four

committees: financial policy and risk planning committee; credit review committee; audit committee; and compensation committee. It is suggested that the chair of the board also chair the financial policy and risk planning committee, and the credit review committee (Recommendation 3).

## 4.2 PERFORMANCE OF THE ERSO TRUST FUND

### Conclusion

147. ERSO was effectively run as a trust fund in accordance with the operational manuals verified by the in-house programme management officers, according to the rules of UN-Habitat. The ERSO loan portfolio is performing according to schedule and is considered successful in view of the funds and human resources available to it. The programme has reached the most deserving population, who range from middle class with no access to affordable housing (e.g., in the AMAL project in the Occupied Palestinian Territory) to households at the bottom of the pyramid that have no access to small loans for housing improvement (e.g., HFHI in Nepal).
148. As none of the ERSO programme lending projects has reached completion, it is not possible to reach a conclusion as to the impact of the programme on future beneficiaries.

### Lessons Learned

149. Having enough flexible funding agreements, beyond low—interest loans or working capital loans, to allow an innovative finance programme to develop a variety of products increases the effectiveness of the programme through a more diverse loan portfolio (Lesson learned 2).

<sup>50</sup> Estimate by Urban Finance Branch Chief to cover professional and geographically balanced staffing.

<sup>51</sup> An approximate but reasonably common figure in the industry to calculate experienced financial staffing.

150. Distilling lessons learned from UN-Habitat global research from various pilot affordable housing programmes and disseminating them to feed them into its innovative finance programme in order to make the first move to replicate and scale up for new efforts by UN-Habitat to marry low cost building technologies and financial services (Lesson learned 3).

151. To make it possible to measure the impacts of the programme operations aimed at supporting affordable housing, ERSO has to be explicit about the target beneficiary populations (Lesson learned 4).

### Recommendations

152. For a future ERSO programme, UN-Habitat should thoroughly review innovative funding mechanisms and seek support from interested donors to ensure sustainable resources for ERSO to attain its long-term goals (Recommendation 4).

153. UN-Habitat should find or coin a definition of target groups for its lending operation in relation to what is achievable in the innovative financial mechanism context (Recommendation 5).

154. For a future ERSO programme, UN-Habitat should conduct a closer analysis and consultations using an external/independent expert to assess leveraging the impact of individual loans under the ERSO programme and other alternative parameters (Recommendation 6).

## 4.3 COMPARISON WITH LENDING PROGRAMMES WITHIN THE UNITED NATIONS SYSTEM

### Conclusion

155. UNCDF and IFAD have portfolios much larger than the ERSO programme, partly because they have been in the market since the late

1970s. ERSO could therefore learn from them, including about up-to-date lending programme platforms and systems.

### Recommendations

156.

UN-Habitat should explore future strategic partnership with UNCDF, which has strategies similar to those of the ERSO programme (Recommendation 7).

157. UN-Habitat should also engage UNCDF and IFAD in discussions about technical partnerships on lending programme issues and sharing lending platforms and systems (Recommendation 8).

## 4.4 INNOVATIVE FINANCIAL MECHANISM

### Conclusion

158. An innovative financial mechanism may take the form of new products, new policies and programmes, new approaches and new processes. New products are new marketable funding instruments that can be used to attract public and private investments in housing activities and projects. Given the broad range of future environmental, economic and social gains arising from housing activities, there is ample opportunity for UN-Habitat to support new products nationally and internationally.

### Lesson Learned

159. Offering diverse funding options (i.e., grants, loans, credit enhancements/guarantees/

shares, or a mix of all three) that provide medium-term capital to financial institutions with a track record of providing housing microfinance directly or indirectly increase the likelihood of developing projects where specific site challenges exist (Lesson learned 5).

### **Recommendation**

160. Invite and share with other United Nations agencies what in operational terms they consider an innovative financial mechanism, taking into account acceptable financial risks and instruments. The definition should also consider the Habitat Agenda mandate on finding, a niche in financial lending programmes where UN-Habitat could fill the gap in the financing of affordable housing for low income households in partnership with other international financial institutions (Recommendation 9).

## **4.5 COLLABORATION WITHIN THE UNITED NATIONS AND WITH PARTNERS**

### **Conclusion**

161. Funding through collaboration between ERSO and domestic banks and multilateral and international financial institutions has cushioned ERSO project loans.

## **4.6 TECHNICAL AND FINANCIAL RISKS**

### **Conclusions**

162. Most stakeholders consider the ERSO programme not to have operated efficiently enough within the UN-Habitat administration because of a lack of financial resources and staffing capacity, and administrative back-office support issues. They do not therefore consider UN-Habitat the preferred institution

to operate a lending programme.

163. The ERSO programme operational manuals were developed during the experimental period with the intention of effectively and sustainably covering the technical and financial risks for the borrower in loan contracts. There are, however, several administrative back-office support system issues that may have increased the technical and financial risks in the operation of the ERSO programme. These include deficiencies in post-closing loan administration, portfolio accounting, and cash and treasury management capabilities incompatible with international financial norms for portfolio reporting.
164. The evaluator recognizes that the ERSO projects faced challenges resulting from UN-Habitat bureaucracy. If the programme was to play an incubator role, it should have been afforded the opportunity to establish its own organizational infrastructure, even if this meant outsourcing some programming and financial (including back-office) activities and responsibilities. Cooperation with other like-minded United Nations agencies or international financial institutions could have contributed to achieving ERSO objectives.

### **Lesson Learned**

165. To lessen the administrative burden when operating loan programme activities, it may be useful for the UN-Habitat Secretariat to conduct a feasibility study on how to fit a lending programme into a grant-giving institution (Lesson learned 6).

### **Recommendations**

166. If it is impossible for UN-Habitat to enhance its commitment, it should at least continue to make progress towards attaining the goals of the ERSO programme by exploring and initiating negotiations to liaise with

like-minded partners in order to share programme operating costs, and seek donor support through partners outside UN-Habitat but within the United Nations system, such as UNCDF, or by participating as a sponsor in a multi-donor scaled facility partnership structure to further pilot and scale up investment in affordable housing, as was outlined in the proposed ERSO programme sixth loan project <sup>52</sup> (Recommendation 10).

167. If ERSO is to function according to the international independent auditors' best practice, consultations are needed between the United Nations Office at Nairobi, UN-Habitat and the ERSO programme on the present and future of the programme in terms of administrative support systems (Recommendation 11).
168. The United Nations Office at Nairobi and UN-Habitat should agree on an appropriate timetable for the installation of the required administrative support system. If this is not feasible, negotiations should be started with partners within the United Nations system to outsource the ERSO programme administrative back office systems (Recommendation 12).

#### **4.7 INTERNATIONAL BEST PRACTICE WITH REGARD TO THE DELIVERY OF FINANCE FOR LOW-INCOME HOUSING**

##### **Conclusion**

169. The evaluation has demonstrated that ERSO projects have performed close to best practice according to a comparison with the FinMark ranking list. FinMark is a leading firm monitoring best practice in this field.

##### **Recommendation**

170. According to FinMark, ERSO best practise is evolving and developing. UN-Habitat should keep the programme on track, comparing ERSO programme methods on best practice with FinMark once a year and make any necessary adjustments (Recommendation 13).

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<sup>52</sup> Annex V.

# ANNEXES

# I. TERMS OF REFERENCE

## 1. INTRODUCTION

In accordance with the Secretary-General's bulletin of 19 April 2000 entitled *"Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation"* (ST/SGB/2000/8), the overall objective of evaluation is to determine, as systematically and objectively as possible, the relevance, efficiency, effectiveness and impact of the UN-Habitat activities in relation to their objectives and to enable the Secretariat and Member States to engage in systematic reflection, with a view to increasing the effectiveness of the main programmes of UN-Habitat by altering their content and, if necessary, reviewing their objectives<sup>53</sup>. The Governing Council of UN-Habitat, through resolution 21/10, has requested an evaluation of the Experimental Reimbursable Seeding Operations programme (ERSO) and a report is to be submitted at the 23rd session in early 2011. This strategic evaluation was therefore included in the evaluation plan for the 2010-2011 biennium work programme of UN-Habitat.

## 2. BACKGROUND AND CONTEXT OF THE EXPERIMENTAL REIMBURSABLE SEEDING OPERATIONS

The Experimental Reimbursable Seeding Operations programme (ERSO) was designed to operationalize Governing Council Resolution 21/10 through the establishment of a trust fund within the UN-Habitat Foundation for a four-year experimental period from 2007 to 2011 to support the introduction of experimental reimbursable seeding operations and other innovative financial mechanisms. ERSO is a programme in the Urban Finance Branch

under the Human Settlements Financing Division of UN-Habitat. In the context of the MTSIP, it is a core programme of Focus Area 5: *"Strengthened human settlements finance systems"* and is complementary to the Slum Upgrading Facility Programme, also within the Urban Finance Branch. ERSO is also linked to Sub-Programme 4 for improved investment in human settlements development leveraged by the Foundation from domestic private and public sources through innovative mechanisms for financing housing and related infrastructure.

### THE PURPOSE OF ERSO IS TO:

- i) Field-test experimental and reimbursable seeding operations and other innovative operations for financing for the urban poor for housing, infrastructure and upgrading through community groups, including where there is an expectation of repayments mobilizing capital at the local level; and
- ii) Strengthen the capacity of local financial and development actors to carry out those operations and to support the capacity of the United Nations Human Settlements Programme to enhance those operations.

### GOAL

The strategic goal of the ERSO programme is increased sustainable financing for affordable and social housing and infrastructure ERSO contributes to progress of MDG Goal 7, Target 11 of significantly improving the lives of at least 100 million slum dwellers by the year 2020. The ERSO target group is low to middle income populations in Africa, Asia, Latin America and the Middle East.

<sup>53</sup> The terms of reference and other Annexes to this report have been reproduced without formal editing.

## EXPECTED ACCOMPLISHMENTS AND PERFORMANCE INDICATORS

Expected accomplishments include financing raised for and increases recorded in affordable and social housing stock and related infrastructure and increase in activities in municipal finance and affordable housing finance.

Specific performance indicators for the ERSO programme were developed at the time that the original Program Document was prepared and adopted within UN-Habitat in April 2008.

These indicators were:

- a) Number of ERSO operations in the process of being implemented (target: 8 – 12 totals in 4 regions)
- b) Average ERSO contribution per operation (target: min USD 0.5 million)
- c) Domestic investments / savings mobilized per operation (target: Av. Leverage factor min 1:1)
- d) Number of low income Households served (target: min. 1,600 households total /200 per operation)
- e) Households served under ERSO within the range of income deciles defined per country operation
- f) Strengthened capacity of domestic financial institutions in affordable housing finance,
- g) Strengthened capacity of domestic institutions and development actors in affordable housing delivery, infrastructure provision and upgrading

These indicators were developed before the ERSO programme was fine tuned and additional lending pilot ideas and capacity building activities were incorporated into the programme consistent with the overall programme, goals. Therefore the suggested questions for evaluation reflect the assessment of the broader programme goals in addition to the specific performance indicators originally developed in the program document.

## APPROACH

With respect to field testing of financing, ERSO initially adopted a field testing approach of a standalone lending operation offering standardized, short term, small-sized loans of up to USD 500,000 in local currency at concessionary, below-market interest rates of between 1-2 per cent to local banks and microfinance institutions, with the concept that the interest rate subsidy would encourage these institutions to make loans to low-income borrowers and projects. Subsequent to July 2009, ERSO developed and field tested other types of pilot structures, including providing long term international market-rate working capital lines to local microfinance institutions, and providing first loss loan funding to a major project partnership with World Bank, International Finance Corporation, Overseas Private Investment Corporation, Department for International Development and local banking institutions.

With respect to capacity strengthening, the ERSO team has taken a collaborative approach, working with local banks and microfinance institutions and nongovernmental organization partners to present the results of lending operations and lessons learned at international and regional urban development, microfinance and micro housing lending conferences. The ERSO team has shared insights on financial structuring and loan guarantee risk analysis and risk mitigation with Slum Upgrading Facility Programme Local Finance Facilities, and with slum upgrading real estate development projects sponsored by other areas of UN-Habitat.

The ERSO team has further participated in discussions with Water, Sanitation and Infrastructure Branch on formation of funds for water plant upgrade project finance and on development with Inter-American Development Bank, KfW and ProCredit Bank of innovative water hookup micro lending in Central America. In addition, the ERSO team has participated in the planning of innovative municipal upgrade approached with Agence Française de Développement and Millennium Cities Initiative

in Kisumu, Kenya; and worked on sector analyses with the Regional and Technical Cooperation Division and with the Urban Economics Branch of the Monitoring and Research Division in UN-Habitat.

## FUNDING BASIS AND LOAN PORTFOLIO ACTIVITIES

The ERSO Trust Fund for field testing lending (Reimbursable Seeding Operations) was funded by the Government of Spain, the Government of Bahrain and the Rockefeller Foundation for USD 3.6 million. UN-Habitat has reviewed over 50 potential loans to date under the field testing portion of the ERSO Programme. Five ERSO loan transactions were completed between January and May 2010 (with Azania Bank in Tanzania for USD 500,000; with DFCU Bank in Uganda for USD 500,000; with Habitat for Humanity International in Nepal for USD 250,000; with PRODEL in Nicaragua for USD 500,000; and with SAKAN Palestine for USD 1,000,000), bringing total funds disbursed to USD 2,750,000. This initial round of lending will support the creation and upgrading of over 33,000 affordable and social housing units in six countries (with housing investment to be made with leverage additional investment and project value of over 175 to 1 on our initial funding)<sup>54</sup>. Certain loan commitments were not able to be funded as loans following due diligence; the ERSO team then worked further with donors and sponsors to find, where appropriate, grant or similar funding for these projects. Lessons learned from these projects will be included in the September 20, 2010 presentation to the CPR Working Committee on ERSO, which will serve as documentation for this evaluation.

Further loan projects are being explored to make use of the funds remaining. Potential new lending projects will be presented to the Steering and Monitoring Committee at its meetings in Spain in October, 2010 and will be made available to the evaluation team at that meeting. Capacity-building and Advisory Activities ERSO provides financial advice to other projects and programmes within

UN Habitat. This includes:

- Review of a proposed Water Operators Partnership fund for upgrading of Global South WOPS partner water facilities to highest environmental standards;
- Review of financial planning for the Mavoko Community Group and Kewlat community housing development project involving Water, Sanitation and Infrastructure Branch and the Gender Unit;
- Review of Slum Upgrading Facility partner internal credit and loan guarantee underwriting, project management and recovery standards in Ghana, Sri Lanka, Indonesia and Tanzania; and
- Review of past or future community fund or microfinance institution seed funding proposed or given by the Slum Upgrading Facility or by the Regional and Technical Cooperation Division.

ERSO is in the process of developing collaborative arrangements with the Millennium Cities Initiative and with the Cities Alliance and to work collaboratively with the Shelter Branch of the Global Division, and the Slum Upgrading Programme of the Regional and Technical Cooperation Division to create a better policy coordination, market and housing stock baseline data and coordinated action plans.

## 3. EVALUATION PURPOSE AND OBJECTIVES

The overall objective of this evaluation is to evaluate progress on the implementation of the experimental reimbursable seeding operations and other innovative mechanisms and to suggest alternatives for more effective implementation<sup>55</sup>. This evaluation is also expected to guide any decision by the Governing Council at its twenty-third session on potential future applications of the

<sup>54</sup> The April Presentation to the CPR Working Group on ERSO lists the completed projects, amount funded and leverage for each project

<sup>55</sup> GC Resolution 21/10 paragraph 7 (g).

experimental methodologies. (GC 21/10, Part II, 7 (i).

This evaluation will review progress on the implementation of the experimental reimbursable seeding operations and other innovative mechanisms and assess alternatives for more effective implementation. It will guide UN-Habitat Senior Management, the Urban Finance Branch Team, the Steering and Monitoring Committee and donors and interested partners on the degree of success of the reimbursable seed capital operations and other innovative financial mechanisms. Most crucially, it will inform future strategy and direction for Focus Area 5 activities on strengthened human settlements finance systems. Results and recommendations drawn from this report will be presented to the Governing Council at its 23rd session for consideration and to guide any decision by the on potential future applications of the experimental reimbursable seeding operation methodologies.

#### 4. EVALUATION SCOPE AND FOCUS

The evaluation will cover the period from January 2008 to present and will focus on processes and activities of ERSO in Nairobi offices as well as field projects. All ERSO lending transactions, advisory and capacity-building activities conducted to-date will also be covered by this evaluation. The evaluation criteria of efficiency, effectiveness, relevance, sustainability and preliminary impacts from ERSO activities will be used. It will consider the ERSO programme design, processes and implementation as well as undertake an analysis of risk, including resource implications of the proposed mechanisms in ERSO and other activities tested during the experimental period.

In line with Resolution GC 21/10, the evaluation will cover the ERSO programme design itself as well as the outputs of the programme. Lessons learned and recommendations based on key findings are required. Recommendations are expected to be practical, timed (immediate, mid-term and long-

term) with clear responsibilities and estimated resources, if necessary.

#### 5. EVALUATION CRITERIA AND KEY QUESTIONS

This evaluation will be guided by four main criteria: effectiveness, efficiency, relevance and sustainability. The various pilot approaches and some aspects on progress towards the expected outcomes and impact that could be attributed to some of the ERSO projects will be assessed. The table below provides some suggested questions that will guide the focus of the evaluation. The evaluators have the discretion to add or modify suggested evaluation questions which will be discussed in the inception report.

#### 6. PROPOSED METHODOLOGY

The consultants are expected to outline the details of their proposed methodology in their Inception Report. It is anticipated that the assessment will be organized as follows:

- a) In-depth document review and analysis, which may focus on the following (also see list of background documents under 11 below.):
  - The current 5 ERSO loan transactions and associated documentation;
  - Proposed additional partnership activities in micro housing finance;
  - ERSO lending process, including loan origination, loan administration and cash management and portfolio accounting
  - Financing structures and arrangements for ERSO transactions including project design, development and implementation;
  - Financial advisory work done on behalf of other UN-Habitat projects;
  - SP4<sup>56</sup> conference presentations and related materials.

<sup>56</sup> Human Settlement Financing, Sub-Programme 4.

- b) Interviews with key stakeholders, both face-to-face and by telephone and email.

Key stakeholders could include UN-Habitat staff, Steering and Monitoring Committee members, borrowers / project partners involved in each loan

transaction, UN Treasury and UNON.

- c) Field visits to project sites in selected countries

- d) A comparative analysis of UN-Habitat ERSO operations in relation to international best practice with regard

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## Evaluation criteria Preliminary questions

Relevance	<ul style="list-style-type: none"> <li>• How appropriate was the initial standalone lending ERSO model for UN-Habitat to pursue in the first place?</li> <li>• How appropriate is an interest rate subsidy approach from a developmental economics standpoint? Can such an approach crowd out local lending and the development of a local financial sector?</li> <li>• How appropriate is the long term working capital loan approach?</li> <li>• How appropriate is the project partnership approach with major international financial institutions?</li> <li>• Are there other lending and credit enhancement models that may be more relevant and that should be considered?</li> <li>• Is there real demand for micro housing lending? Community project finance? The products and services that ERSO offers?</li> <li>• Is there a market for private sector finance involvement in ERSO activities?</li> <li>• Are incentives needed and/or appropriate to encourage such private sector involvement?</li> <li>• Comment on the possible incentives used to-date other than interest rate subsidy (access to long term capital, first loss non-recourse loan investment, first money investment, other)</li> </ul>
Effectiveness	<ul style="list-style-type: none"> <li>• Did ERSO meet intended and stated programme objectives? To what extent has ERSO achieved delivery of the expected outputs, targets and outcomes and what remains to be done?</li> <li>• Are the ERSO credit reviews, risk and risk mitigation analyses, and revised operational procedures for lending consistent with good practice in international development lending?</li> <li>• Has ERSO loan type or types reached target populations?</li> <li>• Which ERSO loan type or types were most effective in reaching low income populations?</li> <li>• Which loan type or types were most effective in reaching scale and addressing housing stock gaps?</li> <li>• Which loan type or types were most effective in supporting development of municipal government approaches?</li> <li>• Which loan type or types provided the most effective incorporation of support from National Government Housing Ministries?</li> </ul>
Efficiency	<ul style="list-style-type: none"> <li>• Is ERSO cost-effective?</li> <li>• Does the ERSO programme have sufficient financial resources and staffing capacity to achieve its objectives or continue effective operations?</li> <li>• Does ERSO have sufficient programme support from UN-Habitat and UNON to effectively administer its portfolio? Is the programme support in payment processing, accounting, loan administration and cash management, as implemented to date, effective?</li> <li>• Is ERSO flexible enough to meet the needs of the different users and deliver the required products and services?</li> </ul>

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Sustainability	<ul style="list-style-type: none"> <li>• Can UN-Habitat access the resources (funding and financing) needed?</li> <li>• Is the present structure of ERSO a sustainable model over the longer term?</li> <li>• Can private sector finance involvement be made compatible with UN-Habitat internal processes and procedures, or would another type of structure to support private sector involvement be preferable? Does UN-Habitat have the appropriate systems in place for a long-term lending operation?</li> </ul>
Impact	<ul style="list-style-type: none"> <li>• What are the preliminary direct and indirect impacts of the ERSO programme?</li> <li>• What are the implications for housing finance for the underserved?</li> </ul>

- to the delivery of finance for low-income housing and infrastructure, and
- e) In particular, review of other lending programs and operations within the UN system, UNCDF and IFAD, with comparative analysis of aims, organizational structures, staffing and operations of the other two programs within UN-Habitat with a lending mandate.
- f) Participation in the ERSO Steering and Monitoring Committee meeting in Madrid, Spain, 13 – 15 October 2010

## 7. ROLES AND RESPONSIBILITIES

The Monitoring and Evaluation Unit, which is responsible for coordinating monitoring and evaluation activities of UN-Habitat, will provide the overall management of this evaluation. The Unit will approve the Terms of Reference for the evaluation and oversee the process of selection and recruitment of the consultants. The M&E Unit will also review all the deliverables for quality and ensure compliance with the norms and standards for evaluation in the UN System.

The Director, HSFD, Chief, Urban Finance Branch and the team members of UFB will provide the administrative and logistical arrangements and support to facilitate the work of the consultants as appropriate. This will include ensuring that the consultants have access to all relevant documents

needed for the review, making appointments for interviews, and arrangements for field visits. HSFD will also review all the deliverables of the evaluation to ensure factual accuracy.

The MTSIP Steering Committee will be informed of the process and will be invited to provide feedback to draft findings and recommendations. The donors will be invited to comment on inception and draft reports. The Steering and Monitoring Committee (SMC) of ERSO will also review the ToR, the inception report and the draft reports. The CPR Working Group on ERSO will be informed of progress and results of the evaluation throughout the process and the evaluation approach and the main ERSO findings will be presented to the CPR Working Group on ERSO for comments. The evaluation will be guided by the United Nations Evaluation Group Norms and Standards.

## 8. MAIN DELIVERABLES OF THE EVALUATION

The consultant(s) should produce the following deliverables:

- a) Inception Report (first payment = 20 per cent) – the inception report (about 15 pages) will include proposed detailed methodology, assessment criteria / questions and work plan, justification and sampling criteria for field visits, and all other detailed related to work focus and programme leading to final evaluation outputs.

- b) Draft reports (second payment = 40 per cent) – the draft report (not exceeding 40 pages, excluding annexes) which will be circulated for comments. Final reports (third and final payment = 40 per cent) – the final report will incorporate all the back and- forth comments from the draft report. The final report should have a clear stand alone executive summary. A proposed format for the report is attached.

transactions including experience with emerging, low income housing markets in developing countries;

- Extensive experience in housing finance for low to middle income markets, ideally in developing countries, and;
- Demonstrated ability and understanding of international best practice standards for banking and loan transactions for low and middle income target markets
- Team leader should have extensive experience in conducting programme evaluations.

## 10. REQUIRED QUALIFICATIONS AND COMPETENCIES

It is anticipated that the evaluation will be done by two consultants recruited through a competitive process. The following experience is required:

- Extensive experience with international banking, particularly in lending and mortgage lending, microfinance (ideally micro housing lending) and financial

The evaluator(s) are required to disclose, in writing, any past experiences of themselves or their immediate family which may give rise to a potential conflict of interest and to deal honestly in resolving any conflict of interest which may arise. The evaluator(s) are also required to be familiar with the Code of Conduct for Evaluation in the UN systems and the United Nations Evaluation Group Norms and Standards.

## 9. WORK PLAN AND SCHEDULE

Output / Activity	Timeframe
Desk review and preparation of Inception Report	September 2010
Presentation of draft Inception report to UN-Habitat for review and feedback	12 October 2010
Attendance at ERSO Steering and Monitoring Committee in Madrid, Spain to present and finalize Inception Report	13 – 15 October 2010
Data Analysis and Drafting of Report; site visits as determined and agreed in Inception Report; on-going contact with UN-Habitat and other key stakeholders	October and November 2010; submission of first draft report
	by 6 December 2010
Drafting of Final Reports (comprehensive version and summary version for 23rd GC), incorporating comments and other requirements as appropriate and in discussion with UN-Habitat Senior Managers and other key partners	Submission of Final Reports 31 January 2011
	Through December 2010 and January 2011

## 11. KEY BACKGROUND DOCUMENTS FOR THE EVALUATION

- Governing Council Resolution 21/10
- UN-Habitat Medium Term Strategic and Institutional Plan 2008 – 2013
- ERSO Project Document of April 2008
- UFB Presentation to the CPR Working Committee on ERSO, April 2010
- UFB Status Evaluation presented to Deputy Executive Director Inga Klevby and Director Bert Diphoorn May 2010
- ERSO credit memoranda on all 5 closed loan transactions
- Briefing Note to Deputy Executive Director on exploratory talks concerning IFCStandard Chartered Global Micro Housing Facility (UN-Habitat facilitator role)
- First ERSO Operations Manual April 2008 and Current ERSO Operations Manual 19 February 2009
- Revised (current) ERSO Operations Procedure Manual dated September 7, 2010
- Procurement material relating to loan administration and portfolio accounting for ERSO loan portfolio
- Evaluation of Mavoko project financial structure in connection with proposed loan to HFCK
- Other documents as requested and relevant

## II. SUGGESTED KEY QUESTIONS FROM THE TERMS OF REFERENCE

Evaluation criteria	Preliminary questions
Relevance	<ul style="list-style-type: none"> <li>• How appropriate was the initial standalone lending ERSO model for UN-Habitat to pursue in the first place?</li> <li>• How appropriate is an interest rate subsidy approach from a developmental economics standpoint? Can such an approach crowd out local lending and the development of a local financial sector?</li> <li>• How appropriate is the long term working capital loan approach?</li> <li>• How appropriate is the project partnership approach with major international financial institutions?</li> <li>• Are there other lending and credit enhancement models that may be more relevant and that should be considered?</li> <li>• Is there real demand for micro housing lending? Community project finance? The products and services that ERSO offers?</li> <li>• Is there a market for private sector finance involvement in ERSO activities?</li> <li>• Are incentives needed and/or appropriate to encourage such private sector involvement? Comment on the possible incentives used to-date other than interest rate subsidy (access to long term capital, first loss non-recourse loan investment, first money investment, other)</li> </ul>
Effectiveness	<ul style="list-style-type: none"> <li>• Did ERSO meets intended and stated programme objectives? To what extent has ERSO achieved delivery of the expected outputs, targets and outcomes and what remains to be done?</li> <li>• Are the ERSO credit reviews, risk and risk mitigation analyses, and revised operational procedures for lending consistent with good practice in international development lending?</li> <li>• Have ERSO loan type or types reached target populations?</li> <li>• Which ERSO loan type or types were most effective in reaching low income populations?</li> <li>• Which loan type or types were most effective in reaching scale and addressing housing stock gaps?</li> <li>• Which loan type or types were most effective in supporting development of municipal government approaches?</li> <li>• Which loan type or types provided the most effective incorporation of support from National Government Housing Ministries?</li> </ul>
Efficiency	<ul style="list-style-type: none"> <li>• Is ERSO cost-effective?</li> <li>• Does the ERSO programme have sufficient financial resources and staffing capacity to achieve its objectives or continue effective operations?</li> <li>• Does ERSO has sufficient programme support from UN-Habitat and UNON to effectively administer its portfolio? Is the programme support in payment processing, accounting, loan administration and cash management, as implemented to date, effective?</li> <li>• Is ERSO flexible enough to meet the needs of the different users and deliver the required products and services?</li> </ul>

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Sustainability	<ul style="list-style-type: none"><li>• Can UN-Habitat access the resources (funding and financing) needed?</li><li>• Is the present structure of ERSO a sustainable model over the longer term?</li><li>• Can private sector finance involvement be made compatible with UN-Habitat internal processes and procedures, or would another type of structure to support private sector involvement be preferable?</li><li>• Does UN-Habitat has the appropriate systems in place for a long-term lending operation?</li></ul>
Impact	<ul style="list-style-type: none"><li>• What are the preliminary direct and indirect impacts of the ERSO programme?</li><li>• What are the implications for housing finance for the underserved?</li></ul>

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### III. QUESTIONNAIRE

Dear Participant

You have been selected to participate in a questionnaire of the ERSO programme of UN-Habitat. Your selection came because you are an active participant in the programme. We encourage your well thought out responses to the questions listed below. Your responses are vital to guiding the further development of the ERSO Programme. Please give your considered response.

Answer to the questions is open-ended. Use the space provided next to each questionnaire for your reply. You may provide additional information or your views on other related matters of importance to you at the end of the questionnaire.

This questionnaire request is time sensitive. Please email your response latest by 22 November 2010 to the independent evaluator Johan Hyltenstam, [dicklana@hotmail.com](mailto:dicklana@hotmail.com).

UN-Habitat is grateful for your participation.

Thank you for contributions!

No.	Question	Comments
A.	Your name:	
B.	The name of your organization:	
C.	In which category are you active regarding ERSO? <ul style="list-style-type: none"> <li>• ERSO management and staff</li> <li>• SMC</li> <li>• CPR</li> <li>• Partner/Client</li> <li>• Donor</li> <li>• UNON/UN-Treasury/UNCDF/IFAD</li> <li>• Other</li> </ul>	
D.	For how long time have you been in the above position regarding ERSO? <ul style="list-style-type: none"> <li>• Up to 6 months</li> <li>• 6 month to 1 year</li> <li>• 1 year to 2 years</li> <li>• 2 to 3 years</li> <li>• More than 3 years</li> </ul>	
1.	Relevance <ul style="list-style-type: none"> <li>• The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country need, global priorities and partners' and donors' policies.</li> <li>• Note: Retrospectively, the question of relevance often becomes a question as to whether the objectives of an intervention or its design are still appropriate given changed circumstances.</li> </ul>	

No.	Question	Comments		
Questions on the relevance of ERSO				
	Question	Yes/ Appropriate	No / Not appropriate	Responses, comments
a)	In your opinion; How appropriate was the initial standalone lending ERSO model for UN-Habitat to pursue in the first place?			
b)	Can the ERSO approach contribute to the overall UN-Habitat mandate and its Medium Term Strategy Plan?			
c)	Does subsidized lending contract have long-term developmental economical impact?			
d)	Does a subsidized lending contract approach crowd out local lending and impair development of a local financial sector?			
e)	How appropriate is the long term working capital loan approach?			
f)	How appropriate is the first loss non-recourse loan approach?			
g)	How appropriate is the project partnership approach with major international financial institutions?			
h)	Are there other lending and credit enhancement models that may be more relevant and that should be considered?			
i)	Is there real demand for micro housing lending?			
j)	Is there real demand for community project finance?			
k)	Is there real demand for the products and services that ERSO offers?			
l)	Is there a market for private sector finance involvement in ERSO activities?			
m)	Are incentives needed and/or appropriate to encourage such private sector involvement?			
n)	Please, comment on the possible incentives used to-date other than interest rate subsidy (access to long term capital, first loss non-recourse, loan investment, first money investment, other)....			
2.	Effectiveness <ul style="list-style-type: none"> <li>The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.</li> <li>Note: Also used as an aggregate measure of (or judgment about) the merit or worth of an activity, i.e. the extent to which an intervention has attained, or is expected to attain, its major relevant objectives efficiently in a sustainable fashion and with a positive institutional development impact.</li> </ul>			
Questions on the effectiveness of ERSO				
	Question	Appropriate/ Yes	No / Not appropriate	Responses, comments
a)	In your opinion; Have ERSO programme governance (SMC/ CPR) been supportive, directive and effective in their steering and monitoring role?			
b)	Have ERSO been successful in initiating experimental and innovative lending or what else should have been to be done?			
c)	Have ERSO meet intended indicators and stated programme objectives?			

No.	Question	Comments		
d)	Are the ERSO credit reviews, risk and risk mitigation analyses, and revised operational manual procedures for lending consistent with good practice in international development lending?			
e)	Does ERSO loan type reached target populations? If yes; which ones?			
f)	Is ERSO loan type effective in reaching low income populations? If yes; which ones?			
g)	Is ERSO loan type effective in reaching scale and thereby addressing housing stock gaps? If yes; which ones?			
h)	Is ERSO loan type effective in supporting development of municipal government approaches? If yes; which ones?			
i)	Is ERSO loan type providing effective incorporation of support from National Government Housing Ministries? If yes; which ones?			
3.	Efficiency <ul style="list-style-type: none"> <li>A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results.</li> </ul>			
Questions on the efficiency of ERSO				
	Question	Appropriate/ Yes	No / Not appropriate	Responses, comments
a)	Do you consider ERSO cost-effective?			
b)	Does ERSO lending approach have a leverage potential of its funds?			
c)	Does the ERSO programme have sufficient financial resources and staffing capacity to achieve its objectives or continue effective operations?			
d)	Does ERSO have sufficient programme support from UN-Habitat and UNON to effectively administer its portfolio?			
e)	Is the programme support in payment processing, accounting, loan administration and cash management, as implemented to date, effective?			
f)	Is ERSO flexible enough to meet the needs of the different users and deliver the required products and services?			
4.	Sustainability <ul style="list-style-type: none"> <li>The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time.</li> </ul>			
Questions on the sustainability of ERSO				
	Question	Appropriate/ Yes	No / Not appropriate	Responses, comments
a)	Is UN-Habitat a preferred institution to access the resources (funding and financing) needed long-term?			
b)	Is the present structure of ERSO a sustainable model over the longer term?			

c) Can private sector finance involvement be made compatible with UN-Habitat internal processes and procedures, or would another type of structure to support private sector involvement be preferable?

d) Does UN-Habitat have the prudent operational systems in place for a long-term lending operation?

5. Impact

- Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended

Questions on the impact of ERSO

Question	Appropriate/ Yes	No / Not appropriate	Responses, comments
a) In your opinion; Is it possible to state any innovative financial impact of the ERSO programme up to date?			
b) Is it possible to state any development impact of the ERSO programme up to date?			
c) Are there any other preliminary direct and indirect impacts of the ERSO programme? If so, what impacts can be seen?			
d) Does ERSO impairs or bring any implications for housing finance for the underserved? If so, what are the implications?			
e) Do you have any thoughts or wishes for a possible continuation of the ERSO programme?			
f) Do you have any suggestions for how the ERSO programme can be improved in the future?			

Please provide additional information that you feel is important or your views on other related matters of importance to you regarding the ERSO programme.

Thank you for your contribution to this evaluation of the ERSO programme!

## IV. RESULTS OF THE QUESTIONNAIRE

### INTRODUCTION

A questionnaire was constructed from the suggested key questions included in the evaluation Terms of Reference. The questionnaire was sent to 18 individuals: all SMC members and present and former staff of the ERSO programme. After four reminders, 15 individuals responded: all but one SMC member and all but two staff members, for a shortfall of 16 per cent. In addition to the formal questionnaire, more than 50 individual stakeholders took part in in-depth interviews

with the questionnaire as a structural background to the open-ended interview questions. All the planned face-to-face interviews were conducted. The interviews gave details on the ERSO implementation process, in addition to diverse views on the vision and impact of the programme, and this has probably balanced much of the questionnaire response shortfall. The questionnaire was divided into five themes – relevance, effectiveness, efficiency, sustainability and impact – as shown in the following figures.

FIGURE I: Questionnaire responses to the relevance of the ERSO programme

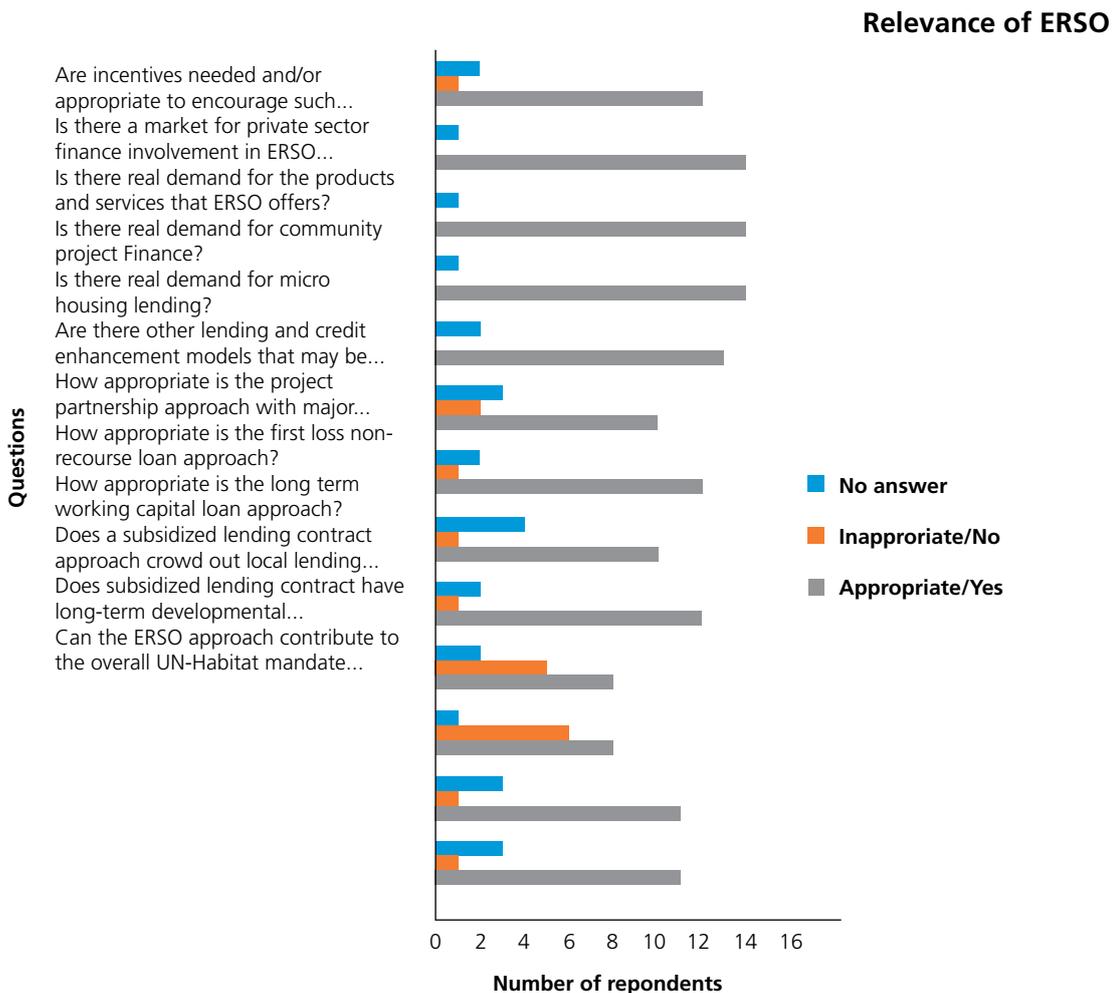


FIGURE 2: Questionnaire responses to the effectiveness of the ERSO programme

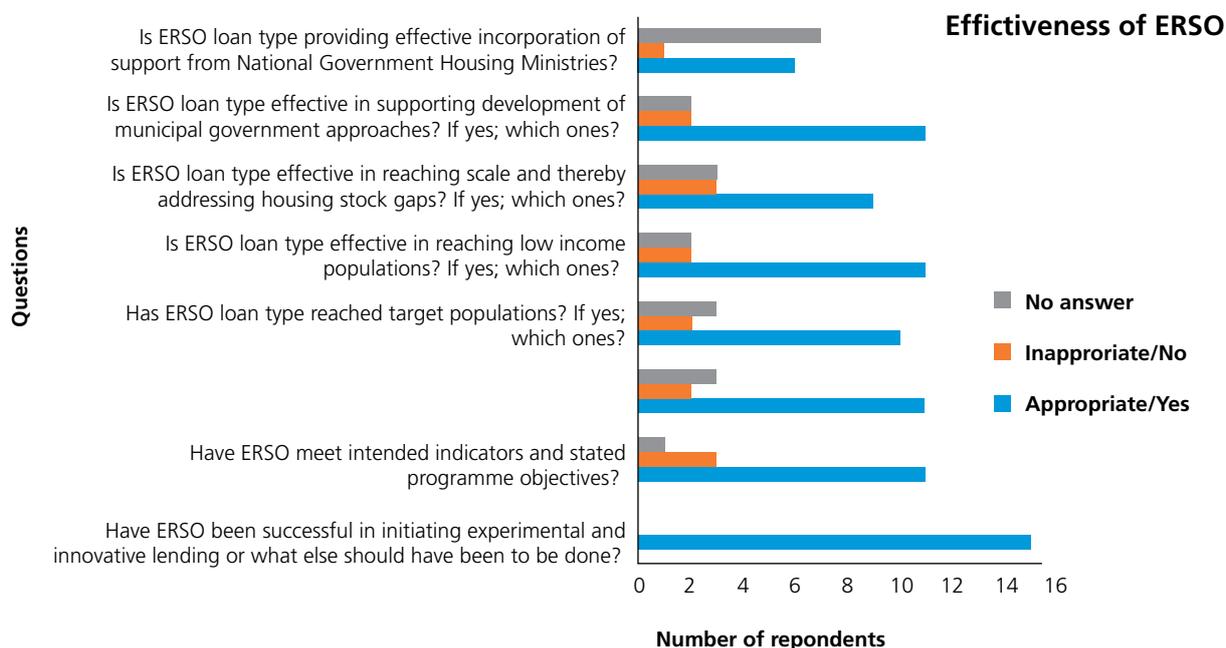


FIGURE 3: Questionnaire responses to the efficiency of the ERSO programme

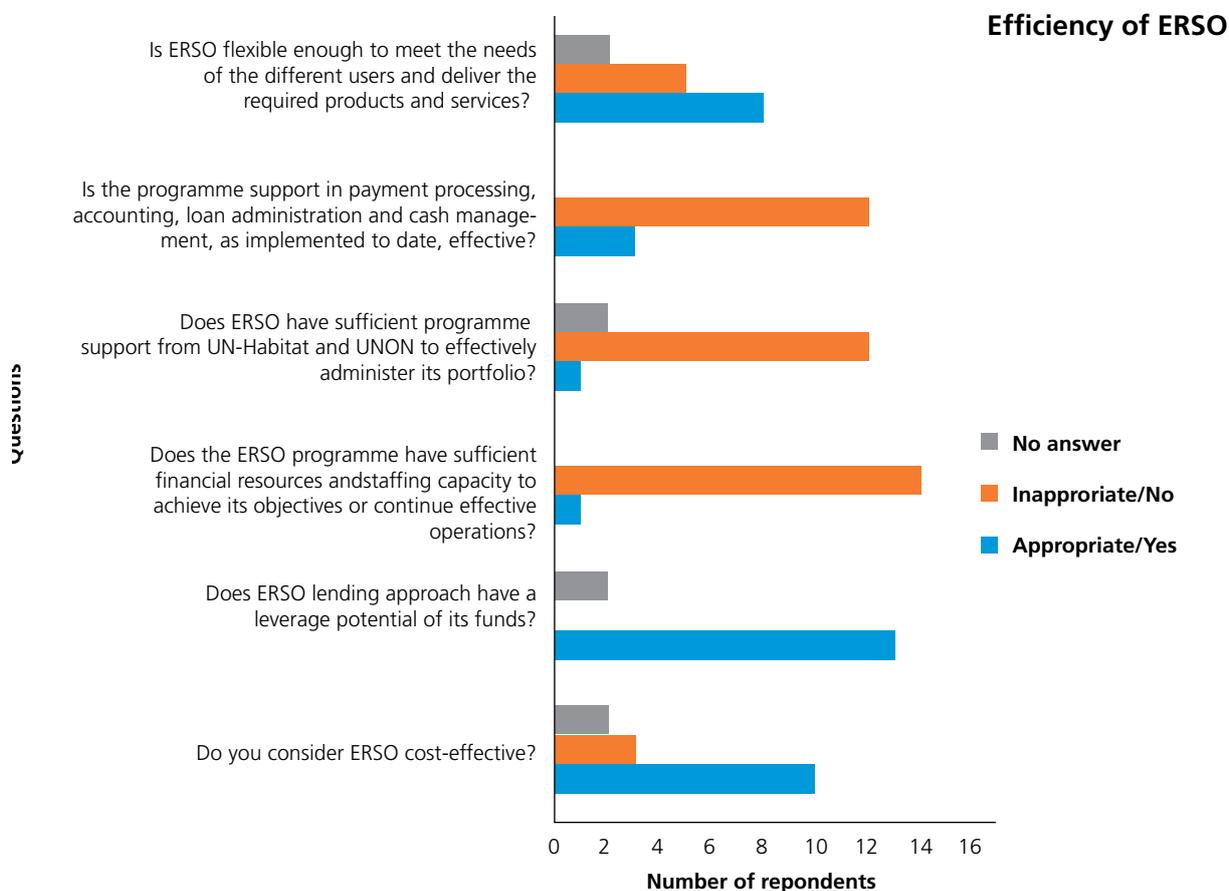


FIGURE 4: Questionnaire responses to the sustainability of the ERSO programme

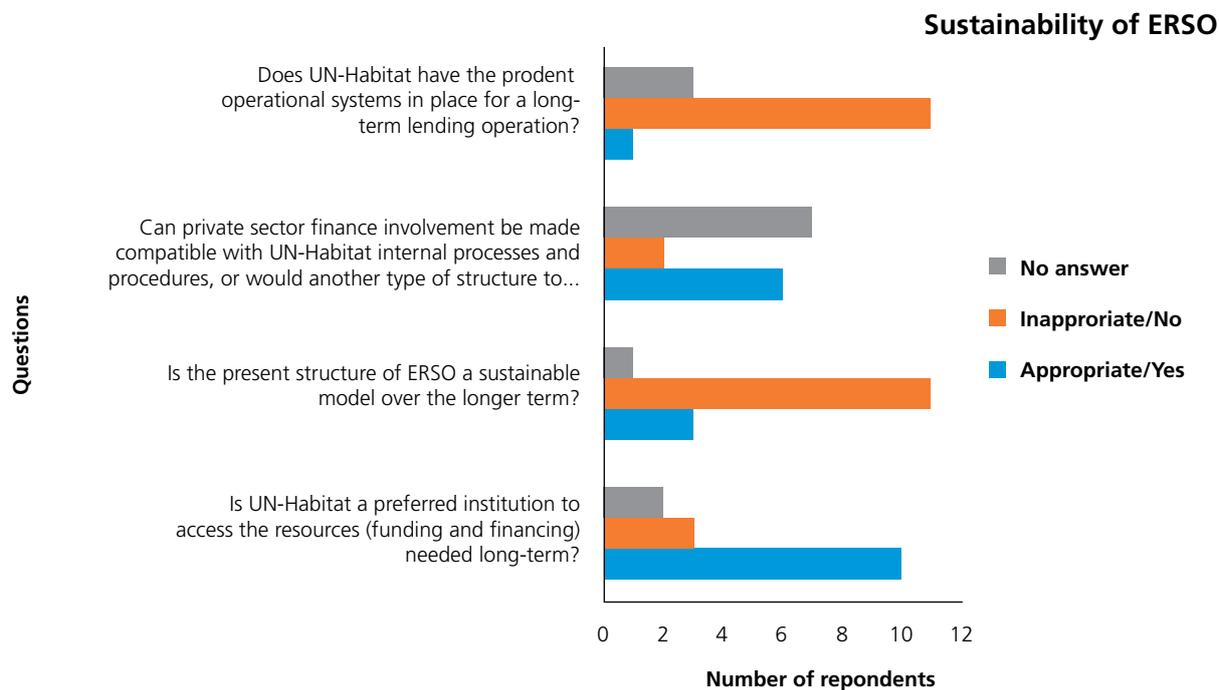
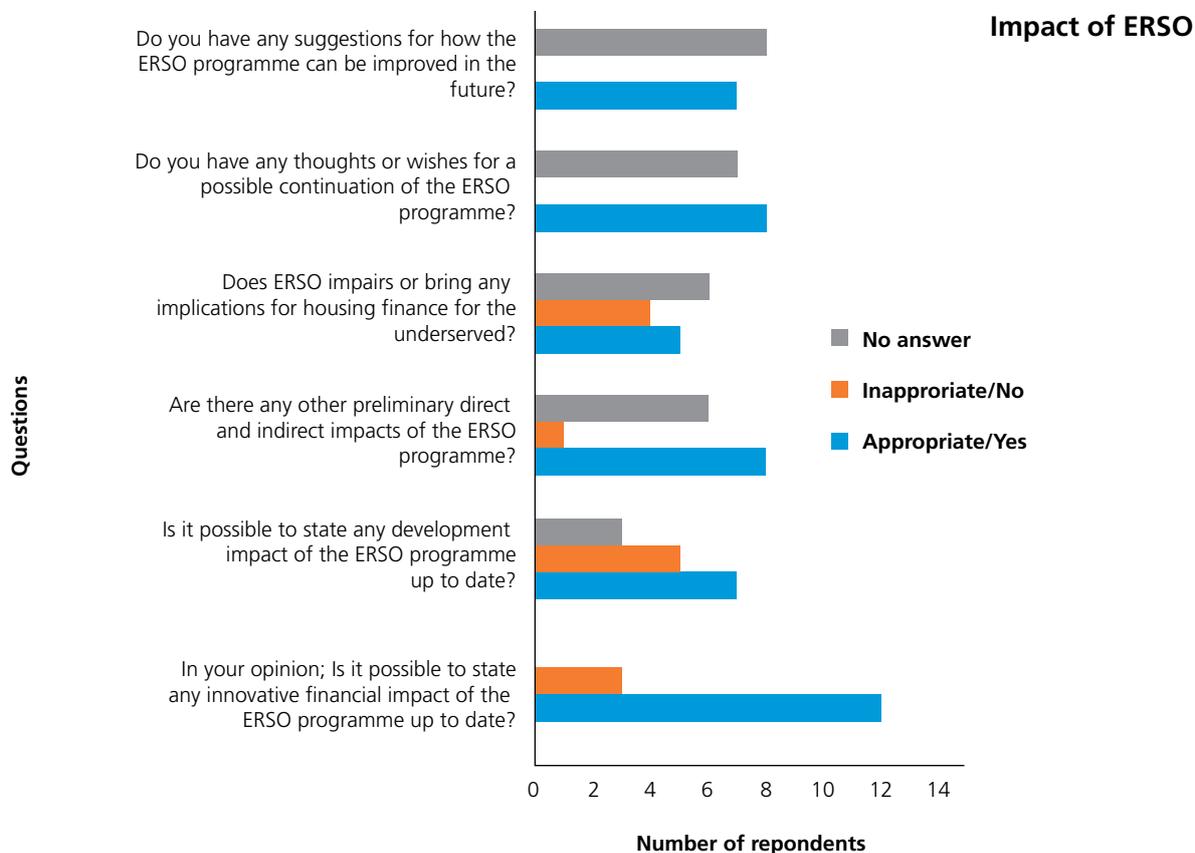


FIGURE 5: Questionnaire responses to the impact of the ERSO programme



## V. CONCEPT NOTE ON A GLOBAL MICROHOUSING FACILITY

### **PARTNERSHIP APPROACH TO ADDRESSING AN URGENT GLOBAL CHALLENGE ON A SUSTAINABLE BASIS**

1. The challenge of adequate, affordable housing for a vast number of low-income households in emerging markets across the globe is well recognized as one of the most pressing developmental challenges facing policymakers, Governments, international institutions, the private sector and civil society. Millions of people lack access to adequate housing and the need is expected to grow with rapidly increasing populations, changes in family structures, rural to urban migration and tighter fiscal capacity in Governments worldwide. Inadequate housing is not only a matter of home ownership, but also of the basic human needs of shelter, water and sanitation, climate change resilience and adaptation, health and social services, transportation and community development. It is fundamental to the economic and social progress of all developing countries.
2. Providing access to adequate housing on affordable terms is a daunting challenge, both in terms of the vast resources that it requires and the complexity of its execution. There is increasing recognition that no one single stakeholder can successfully tackle this problem in a sustainable manner. The growing presence of different stakeholders in a large number of emerging markets, the increased levels of capacity at local levels and, most importantly, the increased self-awareness and aspirations of the local population, however, provide an opportunity to take on this challenge through a global partnership approach among stakeholders who can bring their unique contributions to a collaborative solution that meets common goals and is consistent with their respective operational and financial capabilities and priorities.
3. The facility would consist of a local currency financing and capacity-building programme for microfinance institutions in developing markets that are engaged in or wish to be engaged in financing microhousing and community development. Under the facility international banks with local branches, such as Standard Chartered, or apex microfinance institutions or other lenders with an interest in financing microhousing lenders, would make a series of local currency loans to selected institutions identified jointly by the partners to finance home improvement loans and community development loans on an individual or collective basis, as appropriate. The local institutions would be supported by specific capacity-building assistance in these areas by UN-Habitat in collaboration with IFC and other partners that might wish to join this effort.
4. To enable lenders to make a larger volume of financing available to such institutions, the facility would include a credit enhancement programme that would share the risks of any losses that might occur as a result of defaults by the borrowing MFIs. To ensure that the programme resulted in effective capital treatment for lenders, they would not be required to take any first losses in the programme, and the credit enhancement would be made available on a pari-passu basis. IFC, KfW, UN-Habitat and other agencies would work to develop an effective structure to make the optimal amount of risk-sharing available to lenders to make the programme feasible from commercial and economic perspectives, while ensuring that incentives remained well aligned. It is intended that the successful experience of the recent housing project that involved a donor first loss component to leverage private sector financing will be used to create an

efficient mechanism to deliver an acceptable risk-sharing solution to the lenders.

5. The facility would be established as follows:

- a) A first loss fund would be created by contributions from donors interested in supporting this initiative;
- b) This fund would credit enhance guarantees issued by IFC and KfW to selected lenders who provide local currency loans to institutions that fund microhousing loans to borrowers in developing countries;
- c) IFC and KfW guarantees would be pari-passu to each other and to the lenders with regard to their exposure to the underlying microhousing finance entities;
- d) Subject to structuring considerations and operational requirements, IFC may guarantee the lending entity and be counter-guaranteed by KfW. Alternatively a parallel guarantee structure may be adopted;
- e) The first loss could either be funded or unfunded;
- f) The guarantees would be structured to cover multiple microhousing institution exposures of each lender; separate guarantees for each exposure would not be considered;
- g) Each lender would pay a guarantee fee to IFC and KfW depending upon the market conditions, risk profiles and other factors;
- h) IFC and KfW would guarantee only the principal and not the interest;
- i) IFC and KfW would assume the currency risk of their exposure and would make payments in equivalent local currency;
- j) Since the first loss would be capped in hard currency, the guarantee structure would have a currency appreciation trigger beyond which coverage would cease;
- k) The Facility would be set up as an offshore trust or a similar vehicle and would be managed by IFC in consultation with KfW. Alternative external management arrangements could be considered;
- l) [Discuss structuring fees] - [ ] per cent of the facility amount to be paid upon closing of the facility [from the first loss contribution]. The facility amount would be computed as the aggregate amount of first loss and the amount of guarantees committed by IFC and KfW.
- m) The target size of the Facility would be USD [60] million to guarantee USD [75] million of lending by the Bank, of which USD [25] million would be committed by IFC and KfW and USD [10] million would be the first loss component.

#### Operation of the Facility

- a) Once the Facility was established, it would seek to negotiate guarantee arrangements with specific lenders interested in lending to microhousing institutions;
- b) A detailed set of eligibility criteria and other guidelines would be agreed with all these lenders for the types of microhousing entities they lent to and also the underlying loans;
- c) A technical assistance programme to develop capacity at the level of the microhousing entities would be agreed. This programme would be led by UN-Habitat in co-operation with other appropriate agencies.
- d) As a next step, IFC, KfW and UN-Habitat teams will put together a more detailed proposal that will serve as a basis for internal approvals and further development and execution of the facility.

## VI. CONCEPT NOTE ON FIRST LOSS ARRANGEMENTS

The ERSO programme objective of credit enhancement was to use its donor funds to mobilize and leverage financing from commercial or private capital sources with the aim of supporting the capital sources to offer financial products, expand their risk horizons, broaden access to finance to more borrowers, extend the loan tenors so that affordable housing projects could be matched with the finance payments, and to improve the terms and lower the rates. If successful in establishing a working financial mechanism to flow capital to affordable housing, the next step would be to scale and replicate those findings.

To flow capital, it has to be recognized that central banks are not alone in having the power to inject money into the economy. The dominant share of money-creation takes place through the process of multiplication of demand deposits by commercial banks. Capital and reserve requirements affect the potential of the banking system to create transaction deposits. If the requirement is 10 per cent, for example, a bank that receives a USD 100 deposit may lend out USD 90 of that deposit. If the borrower then writes a cheque to someone who deposits the USD 90, the bank receiving that deposit can lend out USD 81. As the process continues, the banking system can expand the initial deposit of USD 100 into a maximum of USD 1,000 of money (USD 100+USD 90+81+USD 72.90+...=USD 1,000). In contrast, with a 20 per cent reserve requirement, the banking system would be able to expand the initial USD 100 deposit into a maximum of USD 500 (USD 100+USD 80+USD 64+USD 51.20+...=USD 500). Thus, higher requirements result in reduced money creation and, in turn, in reduced economic activity.

The key difference between banks and other financial institutions is thus that banks are allowed to create money in the economy by taking deposits and issuing credit: banks multiply money issued by the Government. Non-banking financial institutions are not permitted to do that.

It is very important to bear this process in mind when partner banks are invited to scale and replicate lending to ERSO programme projects. Banking sector regulation and changes in the banking sector across the industry internationally have made it harder for new financial organizations to be established. The scarcity of financial resources in the banking system may, however, be enlarged by enhancing the bank's capital and reserve requirement and subsequently it is, in principle, possible to create new money for those projects. Credit enhancement structures can support a range of finance models; however, the information here primarily concerns a loan loss reserve<sup>57</sup>, a financial mechanism supporting financial institution and commercial bank facilities which can also be used for bond issues, project finance, utility or bill-financing programmes, etc. A range of different credit enhancement structures exists, including subordinated debt and guarantees, all of which focus on loan loss reserves.

### LOAN LOSS RESERVE FUNDS

Loan loss reserve takes the donor money and uses it to provide partial risk coverage to support the financial institution partner to offer affordable housing project finance products. Donor funds can come from a number of sources; the ERSO programme donor funding came from the Governments of Bahrain and Spain, and the Rockefeller Foundation.

<sup>57</sup> This is to be the main innovative financial mechanism in the forthcoming ERSO programme loan project with the innovative usage of an existing financial infrastructure provided by a global banking corporation, such as Standard Chartered Bank.

Loan loss reserves are best applied using a portfolio approach to credit structuring; where the end-users are a large number of small projects. It is also important that there are donor funds available to provide the seed financing for the loss reserve fund and possible to find additional contributors. The leverage ratios can be increased with experience gained of collections payment performance and loss and it is possible to include that reset calculation and those portfolio performance targets in the loss reserve fund agreement.

The contribution block grants are placed on deposit with the financial institution partner in a deposit account and then, as the financial institution partner originates and executes the loans, the agreed and appropriate proportional amount of funding is placed into the loss reserve fund and is then available to pay for losses as agreed by the definition of loss.

A key definition in the loss reserve fund agreement is the definition of event of loss. One trigger for the ability of the lending partner to draw funds from the loan loss reserve could be using a loan acceleration mapped out cycle that the bank goes through, the bank is fully responsible for collections and recoveries at the point where the borrower has failed to cure in a default situation; then the lender would accelerate the loan and it is at that point of loan acceleration that the financial institution partner would have the right to draw from the loss reserve fund. Following a loss the financial institution will continue their recovery activities and recovered monies would be placed back into the loss reserve fund.

There would be reporting and monitoring requirements consistent with the obligations of the financial partner to the ERSO programme concerning their use of the ERSO programme funds. The reporting covers the portfolio, the accounts in the loss reserve fund, aging receivables on collection performance, the status of recoveries and so forth. All of the financial institutions are financing data that is collected and is an important value for next generation financial mechanisms that may come out of this programme: the data on collection performance. The programme would

also have targets for the amount of lending; if the partner did not meet those targets, the ERSO programme should have the ability and the right to reprogramme the funds.

A key objective of the loan loss reserve fund approach is to modify the underwriting criteria as a credit risk management tool to help the financial institution partner to stretch its risk horizons and modify its underwriting criteria by, for example, reducing the required credit score, increasing the debt income ratio, which are key to lengthen the loan tenors up to 10 years to allow unsecured loans that are larger in the residential sector, even to eliminate the loan to value ratio as regards the property value itself to lower the rates and the customer contribution.

There will obviously be trade-offs between the leverage ratio and the risk-sharing formula. The lower the leverage ratio, the more risk protection is offered. The key principle here will be to achieve alignment of incentives with the financial institution for good loan origination and administration. A key point will be that any losses after the loss reserve fund is exhausted would go fully to the account of the lender so that it has strong incentives for good loan origination in compliance with the underwriting guidelines that are part of the agreement.

An agreement between the ERSO programme, the financial institution partner and the programme manager should seek sustainable connections, define all the roles to be played during the loan origination and the project development process. These should include marketing, loan application, loan origination, and loan documentation. One of the goals should also be to reduce transaction costs for the lender.

It is important to make the loss reserve fund assignable, which would support the secondary market development where the primary loan originator would have greater flexibility to sell off that portfolio and assign the loss reserve fund as part of that sale. Loss reserve funds are relatively easy to set up and administer. The lending institution can also be used as the administrator of the loss reserve fund but it is also possible to use a separate escrow agent.

To some extent there is an inherent conflict of interest between the lender's role as manager of the loss reserve fund and its role as lender. It is therefore important to distinguish those two responsibilities in the loss reserve fund agreement and rely on the clarity of the terms of the loss reserve fund agreement itself to manage that risk. There may also be ways of setting up programmes that would allow the use of multiple financial institutions coordinated under a single loss reserve fund agreement or escrow agreement.

Multilateral lending institution (MLI) treasury groups are often concerned about the potentially inferior trading values for issues they guarantee relative to their straight corporate debt; they fear that poor trading value of guaranteed issues may

contaminate the trading levels of their triple-A-rated corporate or standalone debt issues. An ERSO programme first loss reserve strategy could play an important catalytic role in this context by filling the gap in the debt class with the lowest payment priority in a senior/subordinated debt structure where other MLI's are anxious to advance.

If development banks with one-to-one leverage could increase such leverage to a multiple as high as four times for purposes of guarantees, without jeopardizing their triple-A ratings, and offer quality guarantee products in collaboration with the private sector, they could help expand substantially the investments flowing into affordable housing projects in developing countries.

## VII. LIST OF PEOPLE INTERVIEWED

Name	Country	Organization	Position/Status	Contact
United Nations Office at Nairobi				
James Getty	Kenya	United Nations Office at Nairobi	Chief, Treasury Service Unit, Account Section	F2F
Anuradha Shenoy	Kenya	United Nations Office at Nairobi	Treasury Service Unit, Account Section	F2F
David Hastie	Kenya	United Nations Office at Nairobi	Deputy Director, Division of Administrative Service	F2F
Miouly Pongnon	Kenya	United Nations Office at Nairobi	Senior Legal Advisor	F2F
UN-Habitat				
Inga Björk-Klevby	Kenya	UN-Habitat	Deputy Executive Director	F2F
Antoine King	Kenya	UN-Habitat, Programme Support Division	Director	F2F
Felista Ondari	Kenya	UN-Habitat, Programme Support Division	Chief, Management Support Section	F2F
Michele Levesque	Kenya	UN-Habitat, Programme Support Division	IPSA/ERP Systems Accountant/ Officer	F2F
Mohamed Robleh	Kenya	UN-Habitat, Programme Support Division	Methods and Oversight Officer	F2F
Saidou Abdoulie Ndow	Kenya	UN-Habitat, Programme Support Division	Legal officer, Legal Unit	F2F
Chris Dewsson	United States	UN-Habitat Office, New York	Director	Phone, E-mail
Bert Diphooorn	Kenya	UN-Habitat	Director of the Human Settlements Financing Division	F2F
Rosemary Kiragu	Kenya	UN-Habitat, Human Settlements Financing Division	HSFD, Programme Management Officer	F2F
Christian Schlosser	Kenya Settlements Financing Division	UN-Habitat	Urban Transport Section	F2F, E-mail

Name	Country	Organization	Position/Status	Telephone No.	E-mail	Contact
Xing Quan Zhang	Kenya		UN-Habitat		Chief, Urban Economy and Social Development Branch	F2F
Paul Taylor	Kenya		UN-Habitat		Chief, Office of the Executive Director	F2F
Alioune Badiane	Kenya		UN-Habitat		Director, Regional Office for Africa and the Arab States	F2F
UN-Habitat, Urban Finance Branch						
Barbara Hewson	Kenya		UN-Habitat		Chief of the Urban Finance Branch (UFB)	F2F, E-mail
Saturnino Machancoses	Kenya		UN-Habitat		Senior Credit Officer, Member of the UFB team	F2F, E-mail
Laura Cordero	Kenya		UN-Habitat		Junior Credit Officer, Member of the UFB team	F2F, E-mail
Julio Norori	Panama		UN-Habitat		Member of the UFB team	F2F, E-mail
Jean Ives Bonzi	Kenya		UN-Habitat		Member of the UFB team	F2F, E-mail
Liz Case,	Kenya		UN-Habitat		Consultant to the UFB team	F2F, E-mail
Iain Heggie	United Kingdom	consultant to the UFB team	Financial strategy		New Line, Capital Partners	F2F, E-mail
Ann Marshall	United States		Legal consultant to the UFB team		New Line, Capital Partners	F2F, E-mail
UN-Habitat, ERSO Programme, Monitoring and Steering Committee						
Alan Gill	Canada		Independent Expert, Retired from IADB, ADB		Chair SMC	F2F, E-mail
Marek Bryx	Poland		Professor and Vice-Rector, Warsaw School of Economics		Member SMC	F2F, E-mail
José M. César	Mexico		CEO of Xterna Mortgage Market Services		Member SMC	F2F, E-mail
Swithin Munyantwali	Uganda		Director, African Centre for Legal Excellence, ACLE - ILL-Uganda		Member SMC	F2F, E-mail
Ellen Brunsberg	United Kingdom		Partner, Voras Capital, former Morgan Stanley Managing Director		Member SMC	F2F, E-mail
Saleh Albelushi	Bahrain		Managing Director, Spectra		Member SMC	F2F, E-mail

Name	Country	Organization	Position/Status	Telephone No.	E-mail	Contact
Kishori Dhingra	India		Chairman and Managing Director, ITI Limited	Member SMC		F2F, E-mail
Manuel Martínez	Spain		Associate Director, International Relations, Banco de España	Member SMC		F2F, E-mail
Larry Hannah	United States		Independent expert, Ex World Bank	Expert advisor to ERSO		F2F, E-mail,
UN-Habitat, Country Permanent Representatives, CPR						
Macharia Kamau	Kenya		Permanent Representative of Kenya	CPR Chair		F2F
Daniel Chuburu	Argentina		Permanent Representative of Argentina	Latin America representative		F2F
Sergey V. Trepelkov	Russian Federation		Deputy Permanent Representative of Russia	EEG representative		F2F
Bruno G. Dobarco	Spain		Deputy Permanent Representative of Spain	CPR and donor representative		F2F
Regine Hess	Germany		Deputy Permanent Representative of Germany	Deputy CPR		F2F
Joseph Murphy	United States		Representative of United States	CPR		F2F
Yvonne Khamati-Kilonzo	Kenya		Representative of United States	Deputy CPR		F2F
UN-Habitat, Donors						
Carmen Sánchez Miranda	Spain		Governance Advisor, Multilateral Cooperation Department, AECID	Donor representative		F2F
Marta L. Fernández	Spain		Liaison with the Spanish Ministry of Housing	UN-Habitat		F2F
Erik Berg	Norway		Senior Advisor	Ministry of Foreign Affairs		Phone
Per Nygård	Norway		Senior Advisor	Ministry of Foreign Affairs		Phone
Mikael Atterhög	Sweden		Handling Officer, Urban Development	Sida		Phone
Per Fröberg	Sweden		Senior Advisor	Sida		F2F
UN-Habitat, ERSO Programme Partners/Client						
Raúl Lacayo	Nicaragua		Chairman of the Board, PRODEL	Partner Representative		Phone
Jackson Lohay	United Republic of Tanzania		Senior Loan Officer	Azania Bank		F2F
Juma Kisaame	Uganda		Managing Director, DFCU Bank	Partner Representative		F2F
Wilbrod Owor	Uganda		Head of Consumer Banking, DFCU Bank	Partner Representative		F2F
Peter Kwiri	Uganda		Kasoli Project Manager	Partner Representative		F2F

Name	Country	Organization	Position/Status	Telephone No.	E-mail	Contact
William Walaga	Uganda		Director for Housing, Ministry of lands, Housing & Urban Development	Partner Representative		F2F
Dave Khayangayanga	Uganda		Housing Officer, Ministry of lands, Housing & Urban Development	Partner Representative		F2F
Nael Salman	Occupied Palestinian Territory		Programme Manager	UN-Habitat, Ramallah		F2F
Samih Al-Abid	Occupied Palestinian Territory		Consultant	Palestinian Investment Fund, PIF		F2F
Durgam Maeee	Occupied Palestinian Territory		Director of Palestinian Investments	Palestinian Investment Fund, PIF		F2F
Nura Treish	Occupied Palestinian Territory		Project Manager	Palestinian Investment Fund, PIF		F2F
Iyad Joudeh	Occupied Palestinian Territory		Managing Director	Solutions for Development Consulting Co.		F2F
Nabil Hasan Al-Aref	Occupied Palestinian Territory		Project Manager	Al Reehan		F2F
Sammeer Melhem	Occupied Palestinian Territory		Project Manager	Arabtech Jardaneh		F2F
Others						
Göran Henriksson	Sweden		Consultant, UN-Habitat	Swedbank		F2F, Phone
Stig Jonsson	Sweden		Consultant, UN-Habitat	Swedbank		Phone
Magnus Magnusson	United States		Chief, Business Development and External Relations	UNCDF		Phone, E-mail
Carla Dellanave	Italy		Loans and Grants Officer	IFAD		E-mail
Kecia Rust	South Africa		Centre for Affordable Housing Finance	FinMark Trust		E-mail

## VIII. BACKGROUND DOCUMENTS REVIEWED

For the purposes of this evaluation, the evaluator reviewed the following key background documents:

- Governing Council Resolution 21/10
- UN-Habitat Medium-Term Strategic and Institutional Plan (MTSIP) for 2008 – 2013
- ERSO Project Document of April 2008
- UFB Presentation to the CPR Working Committee on ERSO, April 2010
- UFB Status Evaluation presented to Deputy Executive Director Inga Klevby and Director Bert Diphooorn, May 2010
- ERSO credit memoranda on all five closed loan transactions
- Briefing Note to Deputy Executive Director on exploratory talks concerning IFC Standard Chartered Global Micro Housing Facility (UN-Habitat facilitator role)
- First ERSO Operations Manual, April 2008, and Current ERSO Operations Manual, 19 February 2009
- Comments on the ERSO documents dated November 7 2007, Version JE 2007-11-12
- Revised (current) ERSO Operations Procedure Manual dated September 7, 2010
- Procurement material relating to loan administration and portfolio accounting for ERSO loan portfolio
- Evaluation of Mavoko project financial structure in connection with proposed loan to HFCK
- ERSO Steering and Monitoring Committee Meeting 13-15 March 2010, Preliminary Recommendations of the ERSO SMC to the Executive Director on the way forward for Urban Finance activities at UN-Habitat, Nairobi, 21 October 2010
- ERSO Steering and Monitoring Committee Meeting 13-15 October 2010, Meeting Report and Recommendations of the ERSO SMC to the Executive Director on the progress of the ERSO programme from March 2009 to October 2010, including revisions to the Operations Manual, review of implementation of ERSO through April 2011, Nairobi 21 October 2010
- UN-Habitat, Draft work programme and budget for the biennium 2012 – 2013, HSP/GC/23/10/10U
- UN-Habitat, United Nations Habitat and Human Settlements Foundation: policy framework and draft operational procedures and guidelines. HSP/GC/21/5/add.3/ 8 March 2007
- United Nations Human Settlements Programme, ERSO Programme, Document, 10 April 2008
- UN-Habitat, Memorandum ERSO, to Executive Director, 10/11/10
- Financial Regulations and Rules of the United Nations Habitat and Human Settlements Foundation (UNHHSF), HSP/GC/21/ INF/8, 10 January 2007
- UNCDF, Annual Report 2009
- Report for UNDCF: Financing Local Infrastructure, November 10, 2009
- UN-Habitat, Product Services Brochures
- Women's World Banking, Annual Report 2009

- Credit Suisse, Global Investor 2.10, October 2010; Anna Tibaijuka, Slum dwellers contribute to the economic and social makeup of a city.
- The Standard, Nairobi, Kenya, Section B, December 9 2010; Affordable housing? Not anytime soon!
- Alfredo Stein and Luis Castillo, Innovative financing for low-income housing improvement: Lessons from programmes in Central America, 2005
- A social economic survey report of Kasoli village, Tororo district, October 2009, James Ndugwa, DFCU bank, Mbale branch.

## IX. GLOSSARY

Term	Explanation
First loss piece or loan loss reserve	The debt class with the lowest payment priority in a senior/subordinated debt structure.
Leverage	Utilizing leverage amplifies the potential gain from an investment or project, but also increases the potential loss. This increased risk may be perfectly acceptable or even necessary to reach the goals of the entity making the investment.
Evaluation	<p>The systematic and objective assessment of an on-going or completed project, programme or policy, its design, implementation and results. The aim is to determine the relevance and fulfilment of objectives, development efficiency, effectiveness, impact and sustainability. An evaluation should provide information that is credible and useful, enabling the incorporation of lessons learned into the decision-making process of both recipients and donors. Evaluation also refers to the process of determining the worth or significance of an activity, policy or programme. An assessment, as systematic and objective as possible, of a planned, on-going, or completed development intervention.</p> <p>Note: Evaluation in some instances involves the definition of appropriate standards, the examination of performance against those standards, an assessment of actual and expected results and the identification of relevant lessons. Related term: review.</p>
Effectiveness	<p>The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.</p> <p>Note: Also used as an aggregate measure of (or judgment about) the merit or worth of an activity, i.e. the extent to which an intervention has attained, or is expected to attain, its major relevant objectives efficiently in a sustainable fashion and with a positive institutional development impact.</p> <p>Related term: efficacy.</p>
Efficiency	A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results.
Impacts	Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.
Sustainability	The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time.
Relevance	<p>The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country need, global priorities and partners' and donors' policies.</p> <p>Note: Retrospectively, the question of relevance often becomes a question as to whether the objectives of an intervention or its design are still appropriate given changed circumstances.</p>
Innovative	Ahead of the times; favouring or promoting progress; being or producing something like nothing done or experienced or created before; being or productive of something fresh and unusual; or being as first made or thought of.
Experimental	Learning from attempts to improve access to finance for affordable housing.
Catalyst	An event that directly or indirectly causes another event, an activator, A metaphor for something influencing financial institutions relationships without intending to be a part of them.
Pareto efficient	Given a set of alternative allocations of goods or outcomes for a set of individuals, a change from one allocation to another that makes at least one individual better off without making any other individual worse off is called a Pareto improvement. An allocation is defined as "Pareto efficient" when no further Pareto improvements can be made.

## X. RESUMES OF THE FORMER AND CURRENT STAFF OF THE ERSO PROGRAMME

### PRESENT HEAD OF HOUSING AND SETTLEMENT FINANCING DIVISION (ERSO PROGRAMME): ALBERT JOHANNES DIPHOORN

Albert Johannes Diphoorn has over 20 years' experience in operational management and the provision of technical assistance and policy advice in Africa, Asia and Europe in the area of water and sanitation. He is currently Acting Head of the Housing and Settlement Financing Division. He holds an M.Sc. in Human Geography of the Developing Countries from the University of Utrecht and a B.Sc. in Human Geography from the University of Groningen.

Prior to UN-Habitat, Bert Diphoorn was Senior Water Adviser, PRVP, of the African Development Bank, in Tunis, Tunisia. Before that he was Head of the Water Support Unit at the Ministry of Foreign Affairs in The Hague, Netherlands, where he was responsible for overall approaches to water resources within Netherlands Overseas Development Assistance. From 1993 to 1997, Diphoorn was First Secretary at the Land and Water Management, in the Royal Netherlands Embassy in Dhaka, Bangladesh, where he was responsible for the management of a large portfolio of bilateral assistance projects in the water and sanitation sector with a total annual value of USD 20 million. Before that Albert Johannes was Project Manager of Social and Infrastructure Development at ETC Consultants of Leusden, Netherlands, in Colombo, Sri Lanka. He was also Team Leader of the Dutch Ministry of Foreign Affairs project "Sensibilisation et Formation des Paysans autour des Barrages" in Ouagadougou, Burkina Faso. At the start of his professional career he held various posts as Expert, Socio-economist, Associate Expert in promoting cooperatives of the ACOPAM project, Associate Expert in promoting cooperatives of the Project "Promotion des Coopératives", Junior Expert of the Rada Integrated Rural Development Project.

### FORMER COORDINATOR OF THE ERSO PROGRAMME: CHRISTIAN SCHLOSSER (SEPTEMBER 2007 - JULY 2009)

Dr. Christian Schlosser currently heads the Urban Transport Section of UN-Habitat, the United Nations Human Settlements Programme. Based in Nairobi, Kenya, the focus of his work is on promoting sustainable urban mobility in developing countries, with an emphasis on the needs of the urban poor. Prior to joining UN-Habitat in 2006, Mr. Schlosser served with the German Federal Ministry of Transport, Building and Urban Development.

In this capacity, he was responsible for advising Senior Management on Federal housing assistance programmes, housing finance, rent and home ownership policy. In particular, he contributed to the reform of the € 1 billion federal home ownership programme; the € billion housing component within the overall redesign of the national welfare system; and to the inter-ministerial process of developing proposals for improved integration of home ownership saving schemes into the tax-break scheme for personal retirement accounts, which concerns about 30 million citizens in Germany. Further tasks included assessing the economic implications of housing-related national legislation and the preparation of policy briefs for the Minister/State Secretaries and undertaking policy-oriented research on housing markets, the impact of demographic changes and housing versus sustainability.

Previously, he served as research assistant at the University of Delaware/USA and as transit planner for a *Land* government in southern Germany.

## **PRESENT HEAD OF THE ERSO PROGRAMME: BARBARA C. HEWSON**

Barbara Hewson is Director of Urban Finance at UN-Habitat, responsible for the ERSO Revolving Loan Programme, an experimental finance initiative making catalytic loans supporting domestic bank investment in affordable and social housing projects globally; and the Slum Upgrading Facility, a grant-based guarantee programme working to promote public-private partnership investment in community-led neighbourhood improvement projects in Asia and sub-Saharan Africa.

Prior to joining UN-Habitat, Ms. Hewson was Managing Director at NewLine Capital, a financial advisory firm focused on private sector investment and public-private partnerships in emerging and frontier markets. NewLine advised on mortgage, micromortgage, microfinance housing and consumer finance investments and legislative and regulatory frameworks for affordable housing in Ukraine, Russia, Poland, China, South Korea, India, Middle East/North Africa and sub-Saharan Africa. Key partners included the International Finance Corporation (World Bank Group), the Asian Development Bank, USAID, Overseas Private Investment Corporation and hedge funds The Rohatyn Group and Greylock Capital.

As Consultant on Financial Strategy for the ERSO Programme (Nov./Dec. 2008):

- 1.. Undertaking detailed revenue and cost projections for the ERSO experimental period and the long-term implementation of initiated projects to provide strategic input on proposed financial arrangements (including securitization structure, credit enhancement structure backed by ERSO loan, and local bank housing finance guarantee/lending commitments) among ERSO, local banks and international investment banks as templates for future ERSO involvement in primary and secondary housing finance transactions.
2. Review current and proposed ERSO projects.
3. Together with relevant background data on the relevant housing markets, banking sectors, institutional frameworks (including legal and regulatory) and suggested format of ERSO involvement using information provided by ERSO assess:
  - a) The potential outlays and inflows by ERSO with respect to proposed experimental reimbursable seeding operations, and
  - b) The staffing and third party costs necessary to conclude a financing structure for each project and for ERSO operations as a whole during the relevant ramp-up time period.
4. Development of a financial model with low, medium and high case scenarios based on:
  - a) Review of timing and projected inflows from ERSO loans
  - b) Review of staffing plan and functions to be handled internally and externally with respect to:
    - Origination of ERSO loans;
    - Administration of ERSO loans;
    - Application and selection criteria for loans to be funded,
    - Legal Documentation,
    - Funding process,
    - Loan administration set-up,
    - Periodic monitoring of loan position,
    - Management of problem loans/special servicing;
    - Accounting and reconciliation to loan administration systems;
    - IT coverage;
    - Legal coverage.
5. Develop a draft ERSO Financial Strategy.

Before founding NewLine, Ms. Hewson was a Senior Vice-President and Managing Director at JP Morgan Chase and predecessor banks Chase

Manhattan Bank and Chemical Bank, where she served as head of Global Securitization Services, a division which she built from USD 2 billion to over USD 300 billion in assets under administration, serving international and domestic banking and investment clients from offices in the United States, United Kingdom, Ireland and Hong Kong. She was a board member of Chase Ireland and Chase Manhattan Trust Company of the West. Prior to this assignment, Ms. Hewson headed Chemical Trust Company of California. Ms. Hewson joined Chemical Bank from Watson, Farley & Williams, where she led the New York banking practice, specializing in cross-border investments and asset-based finance, including structuring, workout and bankruptcy practice.

Ms. Hewson has an A.B. in History from Princeton University, summa cum laude, and a J.D. from New York University School of Law, where she was Editor in Chief of the Journal of International Law and Politics. She attended the Programme in Business Strategy and the Executive MBA Corporate Finance Programme of the Graduate School of Business at Columbia University. She is a board member of the Princeton Club of New York, is married and has two children.

### **SENIOR CREDIT OFFICER OF THE ERSO PROGRAMME: SATURNINO MACHANCOSES**

**2009 - present:** *Senior Credit Officer, Urban Finance Branch, UN-Habitat*

Mr. Machancoses is responsible for the day-to-day management of the ERSO programme, an experimental lending initiative launched in 2007 by UN-Habitat that is aimed at stimulating financing for housing and infrastructure projects for low-income households in Latin America, Africa, the Middle East and Asia.

**2002-2009:** *Spianata & Co, London, UK*

### **Cofounder and Head of Finance & Operations**

Cofounded this innovative, up-market, Italian fast food concept from scratch and acted as head of finance and operations. He managed a team of more than 30 employees of 15 different nationalities. Also sourced and managed company's lawyers, bankers, accountants, designers, architects, property agents and shopfitters.

**2000-2002:** *Morgan Stanley, London, UK*

### **Mergers & Acquisitions, Investment Banking Division**

- Received extensive training and hands-on experience in complex financial modelling, interpretation and analysis of company financial statements, across various industry sectors and countries. Company valuations using various methodologies, including discounted cash flow (DCF) modelling, comparable companies analysis (Comps), and precedent transaction analysis (Prepays).
- Involved in business development, researching a wide variety of industries and companies, conducting thorough due diligence, preparing and delivering numerous client presentations and assessing the financial viability of any proposed transaction.

### **Debt Capital Market Services, Investment Banking Division**

- Extensive training and hands-on experience in bond pricing, bond market analysis, corporate debt structure analysis to determine possible funding requirements, preparing presentations for corporate clients considering future debt issuance and executing client bond issues.

**1996 -2000:** *University of St Andrews, St Andrews, Scotland, UK*

BA and MA Honours in Economics & Management

**1991-1996:** *Brentwood School, Essex, UK*

A-Levels: Grade A in Economics, French, Business Studies and Spanish

### **JUNIOR CREDIT OFFICER OF THE ERSO PROGRAMME: LAURA CORDERO**

The ERSO Programme for Affordable Housing and Infrastructure Team, since March 2009,

World Bank Mozambique, Maputo, Mozambique, Nov 08- Feb 09.

Private Sector Development Consultant, Private Sector Development, Africa Region.

Organized the day-to-day on-site implementation of the Competitiveness and Private Sector Development project, Prepared and reviewed key project documents, including budgets and the Project's Implementation Manual, liaised with Mozambican Government officials, several donors, and other key stakeholders, and participated in the Private Sector Working Group meetings.

Georgetown University, School of Foreign Service, Washington DC, USA, May 08

MSc. Foreign Service, Concentration in International Development, Dean's Award for Academic Excellence

Additional seminars: Project Design & Management, Monitoring and Evaluation, Participatory Techniques

Complutense University, School of Economics and Business, Madrid, Spain, June 03

Graduate courses, International and Development Economics, BSc. Economics. Concentration: International and Development Economics (5-year programme).

Montpellier II University, Business Management School, Montpellier, France, June 00

Courses on International Financial Management.

### **CONSULTANT TO THE ERSO PROGRAMME: IAIN HEGGIE**

Senior banker with over 25 years' experience advising financial institutions, with considerable expertise in the arrangement and management of credit-intensive transactions and structured finance programmes, and a detailed understanding of required competencies for banks as originators and sellers of assets, secured debt issuers or structured transaction sponsors (underwriting, credit analysis, administrative procedures, servicing, asset liability management, regulatory compliance, MIS and accounting), which combine to offer a unique combination of skills to advise banks on strategic and tactical approaches to balance sheet development and/or restructuring through asset and liability analysis, new product development, transaction origination, and refinancing/sale of existing portfolios. Senior banking consultant to the Urban Finance Branch of UN Habitat in i) its establishment, negotiation, funding and management of a portfolio of five housing finance loans for its ERSO programme, and ii) the restructuring and finalization of loan guarantee programmes in Ghana, Sri Lanka and Indonesia for the Slum Upgrading Facility.

### **CONSULTANT TO THE ERSO PROGRAMME: ANN MARSHALL**

Twenty-five years of diverse experience developing and managing financial services businesses in emerging markets, including several years as an executive with the Moscow-based subsidiary of a US asset management company. Background includes New York law firm practice focused on public finance. Consistent record of achievement in:

- Implementing new financial services products and innovative investment and funding structures in emerging markets.

- Resolving legal and operational issues, including reorganizations, transactions and regulatory development; effective working within developing legal frameworks.
- Overseeing day-to-day operations, building business and contributing strategic insight in organizations undergoing rapid growth or change in volatile environments.
- Financial advisory firm specializing in mortgage and consumer finance in emerging markets.
- Joined to add in-depth emerging markets expertise to advisory practice providing transaction advice in early stage markets and for new issuers, and debt capital market development for public and private sector clients, completed assignments in India, Ukraine, Nigeria, sub-Saharan Africa, and Palestine.

**PROGRAMME OFFICER OF THE ERSO  
PROGRAMME: PORTIA MACHANCOSES  
(OCTOBER 2008-MAY 2009)**

**2002-2008:** *Morgan Stanley & Co. International, London, UK,*

**2006-2008:** *International Prime Brokerage (IPB)  
Vice-President*

Management role in IPB with primary responsibility to monetize relationships from top 25 per cent of Firm's Hedge Fund clients. Responsibilities include:

- Analysing areas / divisions of existing revenue generation within Morgan Stanley and determining where additional revenues can be gained.
- Acting as point of contact at Morgan Stanley for entire client relationship and ensuring clients are serviced in accordance with their importance to the Firm.

- Creating and maintaining client management system IPB Europe: cross-selling, ensuring present clients remain with Morgan Stanley through client meetings, presentations, mailings, frequent contact.

**2002-2006:** *Institutional Equity Division (IED) /  
European Firm Management –  
Vice-President*

- Corporate Strategy roles in IED reporting directly to both the Global Head and European Head of IED; and in European Firm Management reporting directly to Chairman and COO of Morgan Stanley International. Responsibilities included:
- Conducting detailed analysis of financial performance of European business across divisions and products to facilitate strategic decisions and long-term planning.
- Developing strategic business plans for key and new business initiatives (Russia, South Africa and Emerging Markets; and specific product areas).
- Coordinating inter-divisional, cross-divisional and cross-regional teams focusing on integration of client service across common product platforms: structured derivatives and middle markets.
- Researching and writing internal and external presentations and speeches: ranging from quarterly business updates to the business unit to key note speeches at client conferences.

**2001-2002:** *Investment Management (MSIM) –  
Senior Associate*

Member of European Sales Team distributing investment products to institutional and intermediary clients in both the UK and offshore markets. Specifically responsible for developing pan-European relationships with Merrill Lynch, JP Morgan and UBS.

**1999-2001: Private Wealth Management (PWM)  
- Associate**

Analyst in Client Strategic Group providing analytical and technical support to the Head of PWM Europe and Head of Strategy for Europe:

- Conducted analyses and evaluations of businesses spanning affluent and high net worth clients in Italy, UK, Switzerland and Spain.
- Undertook strategic planning process for high net worth, USD 150m revenue businesses including modelling for 3-5 year projections.
- Evaluated new opportunities for the affluent and high net worth businesses, including investigation of mergers and/or acquisitions.
- Advised on hedging/monetization of large equity stakes, structured products, tax-efficient vehicles and investment management considerations.

**CONSULTANT TO THE ERSO  
PROGRAMME (JULY 2008 – JUNE 2009):  
CORINNE BUCK**

**02/2007-11/2007: F. van Lanschot Bankiers N.V.  
in Den Bosch (Netherlands)**

Project Member Management Information Solutions:

- Define management (accounting) information based on business needs and customer value, one of the strategic goals of the company.
- Write all documents on the design of the management (accounting) reports for the new information system to go live in June 2008.
- Communication with business sponsors, management accounting department, other project teams and the data warehouse service provider.

**10/2003-02/2007: F. van Lanschot Bankiers N.V.  
in Den Bosch (Netherlands)**

Account Manager at a customer branch in Zeist.

**1/2002-6/2002: Eindhoven University of  
Technology (Netherlands)**

Assistant to Financial Management Department.

**SENIOR SWEDBANK ADVISORS TO  
THE ERSO PROGRAMME (OCTOBER  
2007-OCTOBER 2010): STIG JONSSON/  
GÖRAN HENRIKSSON**

**Stig Jonsson:** Vice President/Senior Client Relations Manager, Swedbank, Organizations- and Institutional Customers.

- 35 years' banking experiences in different positions from practical issues at account level up to decision-making at executive levels in a number of financial institutions. Mr. Jonsson has wide-ranging experience of all financial areas.
- Specialized in financing for individuals corporate/associations, housing finance, project financing and infrastructure financing.
- Proven record of dealing with transformation issues in form of formation, reorganization, as well as closing institutions/units.
- Substantial work experience in developing effective operation and management systems, staffing and training, as well as appraisal, lending and monitoring procedures.
- In addition, gained considerable work experience in evaluating, organizing and monitoring financing schemes and institutions in Sweden, as well as in several developing countries.

**Göran Henriksson:** Vice President/Senior Adviser, International Cooperation at Swedbank

### Qualifications and Experience

- Senior Executive experience at large and small companies in different areas (15 years), with core skills in HR, business planning and financial management.
- Comprehensive experience as programme manager/project leader in large restructuring assignments, including management training and downsizing.
- Good social communication skills, ability to deal with all levels of staff, from senior members to loan officers and similar.
- Responsible for corporate and finance department (2 years) within a bank, performing mergers and acquisition projects in Europe, the Far East and Latin America.
- CEO for Mandamus Holding AB (3 years), a company for restructuring, administration and selling properties related to non-performance loans..
- Head of business department for the National Network Provider in Sweden with a yearly investment budget of more than €100 million in infrastructure investments
- CEO for an assets management company during the bank crisis in Sweden.
- By working for banks as well as business/construction companies, he is well-positioned to evaluate risks in the financing of large investments. In addition, he has a proven ability to restructure departments, is well able to communicate proposed changes.
- Requested speaker in the area of non-performance loans and how the bank crisis in Sweden was solved, excess to finance and microfinance industry.
- Experience in financial sector development projects in South America, Africa and the Far East.
- Comprehensive experience in SME, municipal and housing financing, with relevant assignments in Ukraine, the Baltic States, Nicaragua, Dominican Republic, Kenya, Uganda, Thailand, South Korea and China.
- Long experience (7 years) in the construction and real estate industry. Member of the board of directors of Nordic Construction Company AB (publ), one of the largest construction companies in northern Europe. Experience of infrastructure projects and project management in that sector.
- Relevant experience in international credit and risk assessment.
- Comprehensive experience in educational and training activities in financial issues, including relevant experience in training and seminars on access to finance for SMEs, credit scoring, monitoring credit application, strategic planning etc.
- Senior Adviser, Nordic MicroCap Fund (NMC) a Swedish fund for investments in Microfinance institutions in Africa and the Far East.

## XI. OPERATIONAL SUPPORT FOR LENDING AND PROJECT FINANCE PORTFOLIOS

To achieve international best practice for operational support for the finance programme, we need to put in place three types of support activities (loan and finance support functions currently not supported by PSD or elsewhere in UNON or otherwise in Nairobi or New York):

1. Cash management system
  - Multi-currency, multiple account opening to support loan funding and collections for multiple domestic currency loans;
  - Real time payment receipt information;
  - Roll-up reporting for entire portfolio;
  - Management of reserves;
  - Capable of supporting treasury management and currency risk management strategies;
  - With automated reconciliation to accounting package.
2. IAS accounting and report-writing package
  - General ledger;
  - Creation of financial statements;
  - Report writing for overall portfolio performance analysis and performance forecasting;
  - Reconciliation with cash position;
  - Expected to actual performance tracking by loan, currency, country, region;.
3. Loan administration system
  - Tickler;
  - Amortization schedule calculation and updating;
  - Loan performance tracking;
  - Linked to accounting and cash management systems.

## XII. SHORT REPORTS ON THE ERSO LOAN PROJECTS

### **Loan to Azania Bank Ltd., United Republic of Tanzania**

The ERSO loan to Azania Bank of USD 500,000 equivalent in Tanzania shillings, supports a municipal loan made by Azania Bank to the Mwanza City Council to fund site survey, planning and infrastructure installation in a peri-urban area currently occupied by families living informally. Proceeds from the sale of 700 larger plots to middle-class families and commercial users will repay the municipal loan, and allow the municipality to service a total of 2,800 plots, with the remaining 2,100 plots to be offered as secure tenure land to low-income families, including those previously living informally in the area. The Ministry of Housing is working with UN-Habitat on the project. Compensation will be offered to the families currently living informally on the land to reimburse them for the value of their present homes and crops, and thus give them sufficient funding to build a new home on a secure plot in Mwanza, or, if they wish, to move and rebuild elsewhere.

### **Loan to Habitat for Humanity International (HFHI) Nepal**

The ERSO loan to Habitat for Humanity International Nepal of USD 250,000, equivalent in Nepalese rupees, shows that it is possible to create a fruitful collaboration with a heretofore purely donor-funded non-governmental organization seeking to expand its activity in poor communities. HFHI Nepal used the loan documentation and procedures agreed on for the ERSO loan as models to create more formal relationships with the village banks that they fund, improving collection rates and enabling them to make more loans, not only because of ERSO capital, but also as a result of

improved knowledge of efficient management of their lending activities. There is significant potential for broadening this project to many other HFHI affiliates globally. Over 900 families will eventually benefit from the ERSO loan.

### **Loan to Sakan for the AMAL project, Occupied Palestinian Territory**

In its largest catalytic project, ERSO supported the development of a USD 500 million affordable housing programme in the Occupied Palestinian Territory, by investing USD 1 million in the creation of a new secondary facility for affordable mortgage lending. This catalytic investment was necessary to unlock senior finance from the United States Overseas Private Investment Corporation, the International Finance Corporation, the Palestine Investment Fund, and two local banks in the Occupied Palestinian Territory (Cairo Amman Bank and Bank of Palestine). The World Bank and the UN-Habitat Technical Unit are providing policy assistance to the Palestinian Capital Markets Authority and Housing Ministry, respectively, while CHF International is providing borrower financial education tools to the local banks. The programme will offer good quality housing stock to nurses, schoolteachers and families who have been overcrowded because of the low stock of affordable housing, as little has been built in the West Bank. It will employ over 100,000 construction workers over the life of the project. The project aims to build over 30,000 new homes over the life of the programme. The evaluator made a field visit to this project site and can confirm that building activities are under way. Although no one has yet moved in, the site manager estimates that the first households will be doing so in spring 2012, after six months of building delays.<sup>58</sup> About one third of the planned site was built.

<sup>58</sup> Mainly due to the fact that the Israeli authorities did not allow the builders to use dynamite for the groundwork.

### **Loan to DFCU Bank Ltd., Uganda**

The ERSO loan of USD 500,000, equivalent in Ugandan shillings, encouraged DFCU Bank to commit matching funds to finance construction and long-term micromortgage lending to members of a low-income community in Tororo municipality. The loan programme took into account contributions to be made by the Ministry of Lands and Housing (land, income support fund for job retraining, affordable house design), the municipality (infrastructure) and the community (savings). The programme aims to deliver up to 250 new homes in phases, and provide income generation support.

### **Loan to PRODEL, Nicaragua**

ERSO has provided a working capital loan of USD 500,000 to PRODEL, an apex non-governmental organization. PRODEL will use the funds in two ways to help low-income communities in Nicaragua. Some 40 per cent of the loan will be used to finance the PRODEL lending programme for housing improvement loans. PRODEL lends to microfinance institutions, which in turn lend to individuals. PRODEL ensures that the primary lenders offer architectural and engineering services to each borrowing family to help them design their improvements in accordance with building codes. PRODEL also ensures that improvements are well-constructed, that they allow (by design) for multiple implementation phases, that no one home improvement loan is beyond the family's capacity to repay, and that the family can, over time, achieve their full vision of their improved home. The remaining 60 per cent of ERSO funds will be used to finance the new PRODEL municipal finance initiative, in which community group savings and in kind contributions, together with municipal borrowings, are combined to support infrastructure improvement, bringing improved road, sanitation and water services to low-income and peri-urban communities. Improved basic services improve comfort, safety and health in the communities served, while adding to the value of local housing and thus enabling wealth creation for

low-income communities. It is estimated that over 4,000 families will benefit from the ERSO-funded programmes.

### **Final proposed ERSO pilot transaction (see Annex V)**

The proposed transaction, like other ERSO initiatives, is catalytic in nature, with ERSO providing up to USD 250,000. The project, now at the concept stage, would be to design and create a USD 75 million Global Micro Housing Facility to increase the supply of funds offered to low-income populations for incremental home improvement and provision of basic services. The proposed Facility would be designed to attract longer tenor (up to three years) and lower cost funding sources to promote expansion of microhousing credits to low-income populations in 15 countries in sub-Saharan Africa and Asia. Preliminary details of the structure are as follows:

Funds would be provided to local microhousing lenders through Standard Chartered Bank branches, in local currency.

Standard Chartered would be incentivized to enter this secondary lending market by guarantee cover of loss exposure of up to 66 per cent, to be provided by IFC and KfW on a 50:50 basis.

IFC and KfW in turn would be supported by risk-sharing cover from donors to cover 4-5 potential loan defaults.

It is proposed that UN-Habitat's ERSO programme would take the following roles:

1. Facilitate bringing together the relevant lenders, guarantors, microfinance institutions, and housing policy development programmes supporting incremental home lending to the urban poor;
2. Take the lead in developing, on behalf of all donors, the eligibility criteria for screening microhousing operations of potential MFI and local bank participants, to be sure the lending programmes to be funded are well-designed and will most effectively reach the target populations; and
3. Finally, ERSO would supply a loan from the ERSO Trust Fund of up to USD 250,000 to cover certain start-up costs of the programme.

## XIII. EXPERT CONSULTATION PROCESS 19 OCTOBER – 5 NOVEMBER, 2007

### I. BACKGROUND

UN-Habitat is the United Nations agency for human settlements. It is mandated by the UN General Assembly to promote socially and environmentally sustainable towns and cities with the goal of providing adequate shelter for all.

The Governing Council (GC) of UN-Habitat is a high-level forum that meets bi-annually to set UN-Habitat's policy and approve the agency's work programme and budget. At its most recent meeting, in April 2007, the GC approved GC Resolution 21/10 on "Strengthening the Habitat and Human Settlements Foundation: experimental financial mechanisms for pro-poor housing and infrastructure".

GC Resolution 21/10 of 20 April 2007 requests, *inter alia*, the Executive Director of UN-Habitat:

1. To establish a trust fund within the Foundation for a four-year experimental period from 2007 to 2011, to support the introduction of experimental reimbursable seeding operations as well as other innovative financial mechanisms. The purpose of the trust fund is:
  - To field-test experimental and reimbursable seeding operations and other innovative operations for financing for the urban poor for housing, infrastructure and upgrading through community groups, including where there is an expectation of repayments, mobilizing capital at the local level;
  - To strengthen the capacity of local financial and development actors to carry out those operations and to support the capacity of the United Nations Human Settlements Programme to enhance those operations.

2. Submit for the consideration of the Committee of Permanent Representatives (CPR) proposed operational procedures for such experimental activities;
3. Prepare a working operations manual to describe the processes for different reimbursable seeding operations and other finance mechanisms in consultation with the Committee of Permanent Representative; and
4. Establish a steering and monitoring committee of 12 to 14 persons in consultation with the CPR. Representatives of Governments, international financial institutions, United Nations bodies, the private sector and major non-governmental organizations may be invited as participants.

UN-Habitat is currently preparing the implementation of this Resolution. It is planned to present the Draft ERSO Operational Procedures and the ERSO Operations Manual to the CPR on 19 November 2007.

In order to ensure that these documents reflect best practices and to help strengthen and inform the operational design of ERSO, UN-Habitat seeks to consult with a select group of internationally-recognized experts in the area of pro-poor housing and infrastructure finance.

### II. PURPOSE AND DESIGN OF THE EXPERT CONSULTATION PROCESS

The Human Settlements Financing Division of UN-Habitat is organizing a consultation process on ERSO between 19 October and 5 November, 2007.

Consulted Experts are asked to review the Draft ERSO Operational Procedures (16 pages) and the ERSO Operations Manual (41 pages) and provide written recommendations to strengthen them, drawing upon best practices in human settlements financing in particular and upon sound operational procedures in general.

The purpose of the Expert Consultation is to strengthen the ERSO Operational Procedures (OP) and the ERSO Operations Manual (OM) by ensuring that the proposed procedures and guidelines are technically and financially sound and provide workable methodologies based on best practices.

Experts and organizations consulted range from the World Bank, Regional Development Banks and Private Financial Institutions.

### III. EXPERTS CONSULTED

Below is the list of experts who will review the draft OP and OM between 19 October and 5 November, 2007. The list covers representatives from IFIs and private financial institutions that have agreed on short notice to review the documents. As indicated, further attempts will be made in the coming weeks to broaden the range of organizations and expertise covered.

List of experts reviewing draft ERSO documents, 19 October to 5 November.

#### List of experts reviewing draft ERSO documents, 19 October–5 November

Name	Organization	Experience and expertise
Allan Gill	Ex-Asian Development Bank	Executive Director for Canada, the Netherlands and the Nordic countries; Treasurer; Director of Private Sector Development), Member of the Board of Directors of the Inter-American Development Bank.
Anil Kumar	Barclays Bank	Head of Microfinance; previously with ICICI Bank India
Carmen Foglietta	Canada Mortgage and Housing Corporation	CMHC Manager, International Relations & Operations. Participated in Canadian Delegation to GC21. Can draw on CHMCs expertise in financing through community groups
Robert Daughters	Ex-Inter-American Development Bank	Principal Urban Development Specialist, Institutional Capacity and Finance Sector, Fiscal and Municipal Management Division of the Inter-American Development Bank.
Loïc Chiquier	World Bank Housing Finance Group	World Bank/IFC Programme Manager, Housing Finance Practice, Financial Markets for the Social Safety Net Unit, Financial and Private Sector Development Vice-Presidency. Experience in housing (finance) policy, primary/secondary mortgage markets, housing finance institutions, low-income housing finance, microfinance, rental markets, legal/regulatory environment.
Michael Dyson	Independent Consultant	Economics and Infrastructure Consultant with over 30 years of international and domestic experience.  Ex-partner of PricewaterhouseCoopers LLP, responsible for international development assignments in government reform, transport, renewable energy, housing and public / private sector partnerships.

Bernd Riessland	Vienna Business Agency, Austria	CEO, Vienna Business Agency. Ex-Manager, Bank One Austria
Göran Henriksson	Swedbank	Senior Advisor and head of international cooperation at Swedbank
Additional organizations to be consulted		
	Asian Development Bank	Regional expertise and networks to country partners
	African Development Bank	Regional expertise and networks to country partners
	KfW	Expertise with setting up national housing and infrastructure funds
	Equity Bank	First microfinance institution to be listed on an African stock exchange

#### IV. CONTINUATION OF THE EXPERT CONSULTATION PROCESS WITH A FORMAL WORKSHOP IN EARLY 2008

To continue the consultation process into the start of ERSO projects, it is planned to host a workshop in the first quarter of 2008 in Nairobi.

The purpose of the workshop is:

- (i) To inform the design and requirements of the ERSO Experimental Financial Operations: Provide recommendations on innovative financial mechanisms that could be incorporated into ERSO projects, with reference to best practices;
- (ii) To review the TORs for the ERSO Steering and Monitoring Committee (SCM) and provide recommendations on the specific activities that the SCM should be called upon

to undertake, functional considerations, the specific areas of expertise of SCM members and recommendations for candidates to the SCM;

- (iii) To provide recommendations on strategies for developing partnership arrangements with institutional partnerships with IFI's, governments, local authorities, the private sector and major non-governmental organizations;
- (iv) To review and provide recommendations relating to targeting, credit enhancements and risk management, including currency exchange risk, to assure proper risk management and to enhance local markets.



United Nations Human Settlements Programme (UN-HABITAT)  
P. O. Box 30030, 00100 Nairobi GPO KENYA  
Tel: 254-020-7623120 (Central Office)  
[www.unhabitat.org](http://www.unhabitat.org)

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