Advanced Information on
Briefing to the Committee of Permanent Representatives
Activities of Sub-Programme 4 -- Human Settlements Financing Division
5 May 2005

Introduction
This briefing to the Committee of Permanent Representatives provides an overview of the activities of Sub-Programme 4 that are anchored institutionally within the Human Settlements Financing Division of the Secretariat. The briefing focuses on two main components of the Division, namely the Slum Upgrading Facility of the United Nations Habitat and Human Settlements Foundation (SUF), and the Programme Development Branch (PDB). Emphasis is placed on the activities carried out between December 2004 and May 2005, with indications on future directions for the remainder of the calendar year. Readers interested in additional background information should obtain the Progress Report of the Executive Director to the Governing Council on Strengthening the Habitat and Human Settlements Foundation, and the draft resolution on the Slum Upgrading Facility of the Foundation adopted by the Governing Council at its recently concluded 20th Session.

Slum Upgrading Facility (SUF)
The primary objective of SUF is to assist Member States and Habitat Partners to mobilize domestic capital for their slum upgrading initiatives, including housing and urban basic services, in Africa and Asia. Rather than conceive, plan, implement, and maintain slum upgrading projects and then seek external financing, the role of SUF is to work with local partners providing them with technical assistance and seed capital that will enable them sustain their initiatives on a more financially sustainable basis. In order to achieve this primary objective, the Secretariat applies three operational objectives:

(1) Provide technical assistance designed to package the financial, technical and political elements of slum upgrading such that local projects attract investment

(2) Link development and financial partners at local level, and refer these to regional and international best practice and expertise

(3) Provide seed capital to catalyze local initiatives, including credit enhancements to local financial service providers and grant support to intermediary and start-ups

The Facility has since its inception in October 2004, carried out 10 missions to determine the scope and demand for its services. At the request of the principle donors (DFID and Sida), the scoping missions were initiated in West Africa, East Africa, South Asia and South East Asia. Some examples of the emerging field operations in Ghana are: financial packaging services for Slum Upgrading Project in Old Fadama, Accra; credit enhancement and advisory support to HFC Bank, Ministry of Finance, Ministry of Housing, expansion of low-income housing products; and technical advisory support on financial elements of National Housing Policy. In Tanzania, SUF will provide financial packaging services to 10 slum upgrading projects of Dar City Council supporting ongoing work of UN-HABITAT, the World Bank and Cities Alliance. The Facility will also make available credit enhancements and advisory services to commercial retail banks, Ministry of Finance, Ministry of Lands and Housing, expansion of low-income housing products. In addition, SUF will strengthen the capacity of an emerging community development financial intermediary of women housing cooperatives known as TAWLAT, nurturing a credit enhancement by Akiba Bank, in Dar es Salaam.
The emerging operational activities of SUF in Kenya will be to package the financial elements of KENSUP and work with local partners to establish a special purpose vehicle that will attract investment from the domestic capital markets and commercial retail banks. In addition, SUF will provide advisory services to Kibera-Soweto, Langata Decanting Site, and to Athi River Greenfield Site, complementing the work of Secretariat and the Government of Kenya where appropriate.

In Sri Lanka, SUF will provide financial packaging for three large-scale, upgrading initiatives of Moratuwa (outskirts of Colombo) Municipal Authority, undertaken jointly with Slum Dwellers International and potentially supported by commercial banks. The Facility will also make available a credit enhancement and advisory support to commercial banks as well as to the Ministries of Finance, Urban Development and Housing, in order to expand housing loan products to low-income households. Further, SUF will explore ways to assistance Tsunami-affected populations with financial instruments that facilitate the expansion of credit for home improvements and reconstruction. The emerging operational activities in Indonesia are the financial packaging for citywide slum upgrading of Province of Yogyakarta, beginning with the application of a credit enhancement and advisory services to community cooperatives and commercial banks in selected slum areas. Further, SUF will explore ways to provide financial packaging for CO-BUILD, a national slum upgrading initiative supported by UN-HABITAT.

In July 2005, the Secretariat will finalize the SUF Design Phase and prepare the way for the SUF 3-year Pilot. This will entail the preparation of detailed country strategy notes for each of the above countries as well as the completion of institutional arrangements between UN-HABITAT, principle donors, the World Bank, and other Members of the Cities Alliance. Concerning internal institutional arrangements, the Secretariat will in May 2005, appoint a SUF Programme Manager and a small support staff that will together constitute the SUF Programme Management Unit, based in Nairobi and responsible for managing the Facility. Also in May 2005, the Secretariat will award an international service contract for the SUF Pilot Team in May-June 2005, having reviewed bids from consortium through a competitive process executed by the contracts and procurement section of UNON, with advisory support from the Office of Internal Oversight Services. Subsequent to contracting negotiations, the SUF-Pilot Team will commence work in August-September 2005, providing the SUF Programme Management Unit with state-of-the-art project finance and investment finance services in select field projects. The Secretariat will conclude the year with the third meeting of the SUF Consultative Board in Nairobi, in December.

Programme Development Branch (PDB)

Established in January 2005, the primary objective of the Branch is to nurture and develop the Human Settlements Financing Division, ensuring the implementation of the SP4 Work Programme, and supporting and widening the work of SUF. This entails raising funds from bilateral development agencies and private foundations, fostering relations with international financial institutions, and conducting applied research. The Branch is also responsible for interfacing with practitioners through expert group meetings and special task forces, as well as ensuring the activities of SP4 are well integrated within other sub-programs of UN-HABITAT.

With regard to fund raising, PDB is currently focusing on ways to diversify sources of funding for human settlements financing. Thus far, DFID & Sida have contributed USD 1.8 million to UN-HABITAT for SUF Design Phase, and DFID has contributed USD 10 million for the SUF 3-Year Pilot Phase. Sida has pledged an additional USD 10 million that it seeks to secure for SUF field activities through its country programmes in West Africa, East Africa, South Asia and South East Asia. In order to augment these funds, the Branch has engaged in consultations with several private foundations including the Rockefeller Foundation and the Ford Foundation. Both have expressed interest in strengthening the Human Settlements Financing Division.
Further, the Branch notes with appreciation the active involvement of the Government of Norway as a member of the SUF Consultative Board, and the firm support displayed by Member States at the 20th Session of the Governing Council for the United Nations Habitat and Human Settlements Foundation.

PDB has been actively strengthening **inter-institutional relations** with the World Bank Group, including the Vice Presidencies for Infrastructure, Africa and Asia, as well as the International Finance Corporation (IFC) and the Cities Alliance. During the recent Governing Council, the Branch engaged in consultations with the Canadian Mortgage and Housing Corporation with a view to support the Human Settlements Financing Division. Representatives of the Branch will participate in the upcoming meetings in May 2005, of the Private Infrastructure Development Group (PIDG), presenting progress to date on strengthening the Foundation. Further, PDB participated in April 2005, in a donors coordination meeting on credit enhancements organized by the Development Credit Authority of USAID that included representatives of the World Bank, IFC, the French Development Agency credit facility, and GuarantCo of the PIDG. The Branch seeks in the coming months to deepen relations with representatives of international commercial retail banks given the importance of developing lending instruments commensurate with the needs of low-income households in Africa and Asia.

The Branch will also carry out **applied research** in cooperation with SP3 and consolidate tools and instruments for financing shelter and urban basic services. The research will consider domestic capital (analysis of institutional pension funds and insurance companies in Sub-Saharan Africa) and repayment capacity (analysis of consumption patterns, productive capacity, and affordability in informal settlements and slums) among other topics. PDB will also consolidate case studies of public-private housing development companies and other special purpose vehicles for slum upgrading, linking this into more comprehensive monitoring and evaluation activities of the Division.

Given the specific geographical focus of SUF to low-income countries in Sub-Saharan Africa and to South and South East Asia, the Branch will be responsible for widening engagement of the Secretariat to **other sub-regions**. In May 2005, the Branch will participate in an important international conference on shelter finance organized by Harvard University Joint Center for Housing Studies with support from the Rockefeller Foundation. Participants include senior government officials and private sector representatives from South Africa, Mexico, Thailand and Kenya. The Branch also monitors work on financing shelter and basic services in India, Brazil, South Africa and Mexico as a member of the Municipal Finance Task Force convened by the USAID and supported by the Members of the Cities Alliance. In June 2005, the Branch will work with the United States Department of Housing and Urban Development and the Ministries of Finance and Housing in Tanzania to organize a peer exchange on state support to commercial lending institutions. Finally, the Branch will in November 2005, provide support for an international Expert Group Meeting on Housing Finance in Economies in Transition that will include representatives of the Russian Federation and Members States from Eastern Europe.

A final activity of the Division coordinated by the Branch together with SUF will be an effort to **integrate SP4 within other Sub-Programmes** of UN-HABITAT. PDB will in May 2005, host an internal seminar on “Mobilizing Domestic Capital” that will include representatives from the Water and Sanitation Trust Fund, HPMs and regional offices, the Urban Economy Branch, Global Urban Observatory, Cities without Slums Sub-regional Programme for East and Southern Africa, the Sustainable Cities Programme, and the Land research network, among other units of the Secretariat. The event and others like it will build on the excellent work demonstrated thus far by Habitat Programme Managers and regional offices in field projects of SUF 3-Year Pilot Phase.