A. Background

The current slum challenge and urban housing crisis affecting more than 1 billion people in developing countries and economies in transition is a crisis in affordable housing. The key determinants to the affordable housing equation can be summarized as follows:

- **Income**: percentage of net earnings, savings and other forms of wealth (assets) that can be devoted to housing solutions (rental or purchase)
- **Cost of land and construction**: as determined by land markets, land tenure systems and building norms and standards
- **Basic infrastructure and services**: including water and sanitation, transport and energy, health and education, as determined by planning and regulatory policies of central and local government authorities and practices of service providers
- **Credit**: cost of money including interest rates and loan conditions

Since the Habitat II Conference in 1996 and the Millennium Declaration in 2000, the UN system has focused its work on three of these determinants, namely job creation, land and property rights for the poor, affordable planning and construction standards, and pro-poor basic infrastructure and services.

The lack of integration of the credit determinant has severely limited the effectiveness of system-wide response. It has limited system-wide capacity to develop and apply comprehensive models and systems for dealing with the slum challenge/housing crisis. Where successful models and systems have been developed and implemented, it has constrained the ability of the system to engage public and private actors and institutions at the global and national levels to go to scale.

B. The Scale of the Crisis

It is estimated that some US$ 20 billion would be required annually during the period 2005 to 2020 to achieve MDG 7 Target 11 and to prevent the future formation of slums. The sheer scale of this challenge far outstrips the current levels of private and public investment in housing and infrastructure in most developing countries. The solution to this challenge lies in the successful mobilisation of domestic capital and in leveraging the estimated US $5 billion provided annually by official development assistance to the urban sector. A related challenge is that of targeting. Current financing models and systems are designed to meet the needs of “middle-class” borrowers and are not accessible by the urban poor. New financial instruments, products and innovative packaging are required to make large-scale slum improvement and pro-poor housing and infrastructure projects “bankable”, i.e. attractive to domestic sources of capital.

It is against this background that the General Assembly called for the revival of the UNHHSF as part of the overall strengthening of UN-HABITAT to enhance its contribution to the coordinated implementation of the Habitat Agenda. The promulgation of the revised rules by
the Secretary General provides the overall principles and framework for enhancing the effectiveness of system-wide response to the slum challenge.

C. The link to the Medium Term Strategic and Institutional Plan (MTSIP)

The MTSIP, currently being discussed and refined both internally and with the CPR, is designed to align the capacities of UN-HABITAT to fulfill a catalytic role in support of the attainment of the human settlements related targets of the MDGs. It capitalizes on UN-HABITAT’s comparative advantages and experience in pro-poor housing, land and basic services; focuses on strengthening working relations with key partners including international financial institutions and the private sector; and packages its global and country-level activities for pre-investment.

During the preparation of the MTSIP, a number of pre-conditions for operationalising the rules of the Foundation are being assessed. These include:

(i) In-house capacity and expertise
(ii) Comparative advantages
(iii) Relations with key partners including IFIs and the private sector
(iv) Funding prospects
(v) Management systems

A detailed design and scope of the Foundation will be prepared, including a proposed phased approach for implementation.

The overall scope of the Foundation is foreseen to be within the Secretary General’s Bulletin of 22 November 2002 enabling it to effectively mobilize domestic resources in support of the implementation of the Habitat Agenda.

The proposed implementation of the rules and regulations can serve as point of departure for further discussions. They will be assessed to ensure that they are fully compatible with the MTSIP and further refined by external financial expertise.