1. What is the experience of Revolving Funds and what is UN-HABITAT’s role and advantage with them?

A Revolving Fund is a normal financing operation. It is in fact the basis of all lending that is defined for a specific purpose – such as mortgages or even small loans facilities for housing or upgrading. Money is lent for the purpose and repayments made to that central account either regularly or at an end date. Once returned the money is lent again. This was the basis of ‘friendly societies’ set up as forerunners of Building Societies and mortgage-type institutions. In due course the financing mechanisms naturally became more complex, but the principle remains the same.

Revolving funds can be set up and administered locally (in-country schemes), or globally – where a global fund is accessed by the in-country operations. UN-HABITAT is a global body mandated\(^1\) to facilitate finance for local urban development, slum upgrading, and pro-poor housing. The Secretary General’s Bulletin sets out the requirements for UN-HABITAT to undertake such a global facility. This will be undertaken in cooperation with the existing international financial architecture, extending its reach to more of the one billion slum dwellers than have ever been reached with formal financial arrangements.

UN-HABITAT has a unique understanding of the financing requirements of the world’s one billion slum dwellers built on its collective Habitat Partnership arrangements. Where already operating, the Habitat Partners have considerable experience of the workings of local revolving funds whereby the community savings and loans schemes demonstrate a good repayment performance based on local peer-level management. This reflects the experience of the Grameen Bank short-term micro-credit in Bangladesh and elsewhere, and others such as the IIED/Sigrid Rausing Trust International Urban Poor Fund with Slum Dwellers International. Where a person of extremely modest means is helped with ‘micro-credit’ then they ensure that repayments are made. Proportionally they have more to loose through any default. The community basis of repayment also ensures that initial

---

\(^1\) UN-HABITAT mandate is through UNGA resolution 56/206 and the Foundation most recently by the Heads of State at the World Summit 2005 in their paragraph 56(m) of the outcome document, and the Secretary General’s Bulletin of 1 August 2006.
difficulties are overcome at the community level. This is recognised by bankers as good financial management and worthy of extended financial arrangements.

The methodologies of extending finance for housing and upgrading, needing longer term finance, are complex and require good technical assistance and support. UN-HABITAT is building this experience directly with the Slum Upgrading Facility (SUF), the Water and Sanitation Trust Fund (WSTF), and indirectly with the various women’s land access groups that it is assisting specifically in many countries in Africa.

2. How could an experimental phase be introduced in the UN-HABITAT 2008-2009 biennium that would allow the field testing of “reimbursable seeding operations” on a global basis as enabled under the new Regulations and Rules of the Foundation and operationalised through their Operational Procedures and Guidelines?

The Regulations and Rules for the United Nations Habitat and Human Settlements Foundation enable UN-HABITAT to undertake “reimbursable seeding operations” that makes ‘provision, on a reimbursable basis, to eligible public and private institutions, with special emphasis on developing countries and countries with economies in transition, of seed capital etc. to support the mobilization and effective utilization of domestic financial resources for human settlements by local lending financial institutions, in particular housing finance and community-based savings and loan organizations and other institutions engaged in low-cost housing and slum upgrading programmes’. (See Rule 301.3)

Operations to support the mobilization of domestic financial resources by local lending financial institutions are very similar to the methodologies already employed by the Slum Upgrading Facility, and through pre-investment finance, the methodologies employed by the Water and Sanitation Trust Fund, except with the significant difference that they are exclusively on a ‘grant’ basis and not on a ‘reimbursable’ basis, thus fitting with the earlier Rules and Guidelines.

In order to field test ‘reimbursable seeding operations’, some experimental ‘live’ projects would need to be undertaken that would in turn test the provisions of the Foundation Operational Procedures and Guidelines as set out in the Foundation’s Policy Framework, as set out in HSP/GC/21/5/ADD.2

An experimental phase could be introduced to the Foundation to be run alongside the existing General Fund and Special Fund windows of the Foundation such that the new Regulations and Rules could apply within the format of the Operational Procedures and Guidelines. In this way the Governing Council would be in a position to observe first hand how the provisions for reimbursable seeding operations perform. The extent to which such an experiment could be exercised would naturally be constrained by funding and timing. Regular reporting of these experiments would allow an evaluation of progress to be made at the 22nd Session of the Governing Council and thereafter.
It should be noted that the Guidelines require and make provision for the Foundation Advisory Board and the Loan Operations Review Committee of the Foundation to be established with a view to working with others, to bring together the leading authorities of financing operations that deal with human settlements, and pro-poor housing, in such a way that they and their institutions may all contribute to the processes of identifying and facilitating the local operations defined above.

New specific voluntary contributions would be required in order to fund such an experimental phase. (Existing funds are currently allocated on the basis of existing programmes utilising exclusively ‘grant’ procedures.) After evaluation at the end of its first period of operations within the biennium, the progress on the experimental phase would help inform the Governing Council on the stage at which they would feel comfortable in any up-scaling of the processes envisaged for reimbursable seeding operations.

3. Could an experimental phase for testing ‘reimbursable seeding operations’ be established under specific Trust Fund arrangements for the purpose?

The experimental phase would be conducted within the existing mechanisms of SUF and WSTF through a specific Trust Fund element for the reimbursable seeding operations funding. This could be set up quite quickly and would have the advantage of clearly defining the purpose of funding allocated for use in the field testing of reimbursable seeding operations. The Regulations and Rules already permit such an operation. The relevant parts of the Foundation’s Operational Procedures and Guidelines would set out the principles under which the experiment would take place, including all governance, monitoring and evaluation arrangements required. Existing capacity would be utilised for these operations. The additional posts envisaged within the funding of the MTSIP would also be utilised. Relevant partnering arrangements would be employed for most of the work, together with specific coordinating personnel for the experimental phase.

4. What would be the additional costs for UN-HABITAT to run an experimental phase for ‘reimbursable seeding operations’ (RSO) in the forthcoming biennium?

Costs would be split between some modest additional operational costs, and the capital costs for the ‘reimbursable seeding operations’. There will be some requirements for legal and accountancy opinion and drafting. There will also be calls for inputs from our many different Habitat Partners including the private sector, existing public and private institutions, and in the intricacies of the United Nations system. These additional, but modest, costs would need to be built into the experimental phase, but not the UN-HABITAT staff costs already in the budget. The levels of funding required for capital designated for exposure to the envisaged system would be the principal amount required. The capital disbursements would be subject to the Regulations and Rules now in place, together with the relevant elements of the Operational Procedures and Guidelines as agreed for the experimental phase.
5. **So what would an example of an experimental ‘reimbursable seeding operation’ (ERSO) look like?**

It would be important to run the ‘reimbursable seeding operations’ experiment on a project that has already had ground work established for it physical and local institutional properties together with costings for its implementation and potential affordable cost recovery pattern. To this would be added an analysis of a business plan that would form the basis of a potential local finance agreement. This is still all the same as the remit of a SUF or WSTF grant. It would be known as the Target Project.

The Target Project would be introduced to a local financial institution already known for its appropriateness for a local lending operation. The blended capital requirement for the Target Project would be analysed for local elements and ‘introduced’ elements – those elements that would be needed from an external source. When the extent of the external element is known it would be assessed in terms of a potential reimbursable seeding operation from the Foundation Trust Fund, complete with agreements for repayments, term, and conditionality, collectively known as the Target Project Term Proposal.

The Term Proposal would be analysed by the start-up of the Loan Operations Review Committee, the ‘credit committee’ to the Foundation, albeit itself being in a very early stage of development. Further ‘opinion’ would be sought from the relevant Foundation Advisory Board members and other partners as appropriate. When agreed by all parties, a conditional fund term transfer agreement would be established with the local financial institution. Payments would then be honoured between the parties, including all service charges and interest where appropriate.

Performance would be closely monitored. Independent verification and evaluation would be made within the terms of the agreement. On maturity the reimbursable seeding operation would be completed with the local the obligations absolved and the capital returned to the Trust Fund for future consideration for utilisation.

The experiment would itself be evaluated periodically and regularly, as well as finally at completion of the term. However, the intermediate evaluations would be used to inform decision-making about the merits of the operation and the extent to which it should form a model for up-scaling operations.

The experiment would be reported in sequence for evaluation and consideration specifically for GC 22 in 2009 and GC 23 in 2011.

**MM 04-04-07**