United Nations Habitat and Human Settlements Foundation
Experimental Reimbursable Seeding Operations (ERSO)

DRAFT Framework for Implementing Resolution GC21/10

October 2007

I. Introduction

The United Nations Habitat and Human Settlements Foundation (UNHHSF) has served UN-HABITAT as an account for voluntary contributions since its creation in 1978. In 2001, GA Resolution 56/206 asked the Secretary General to strengthen and revitalize the Foundation in line with its original purpose as an instrument to finance pro-poor housing and urban development. The Special annex for the United Nations Habitat and Human Settlements Foundation (series 300) to the Financial Regulations and Rules of the United Nations (series 100) was promulgated by the Secretary-General and enter into force on 1 August 2006.

At its 21st Session the Governing Council for UN-Habitat adopted Resolution 21/10 requesting the Executive Director of UN-HABITAT to instigate a four year period of Experimental Reimbursable Seeding Operations as well as other innovative financial mechanisms within the context of the 300 Series nd Rules.

Operative Paragraph 2 of Resolution 21/10: “Requests the Executive Director to establish a trust fund within the Foundation to support the introduction of experimental reimbursable seeding operations as described in paragraph 7(d) (iv) of the present resolution, as well as other innovative finance mechanisms, building upon the experiences with instruments and partnership networks such as the Water and Sanitation Trust Fund and the Slum Upgrading Facility, for a four year experimental period from 2007 to 2011, and further requests the Executive Director to submit for the consideration of the Committee of Permanent Representatives proposed operational procedures and guidelines, taking into consideration the relevant elements of the draft Operational Procedures and Guidelines.”

The purpose of this Draft Framework is to guide both the CPR and the Secretariat in setting out the way in which GC21/10 will be implemented in the ERSO plan period 2008-2011.

II. Background

Part “II” of the GC21/10 provides detailed guidance on how ERSO should be developed:

(a) Purpose:

(i) To field-test experimental 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;

(ii) 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;

(b) Arrangements:
(i) Establish a trust fund for the financing of the experimental reimbursable seeding operations and other innovative operations within the Foundation specifically for the implementation of the experimental activities.

(ii) Establish a Steering and Monitoring Committee of 12 to 14 persons appointed in consultation with the Committee of Permanent Representatives. Representatives of Governments, international finance institutions, United Nations bodies, the private sector and major non-governmental organizations may be invited as participants;

(c) **Macro level:**

Work with existing international financial institutions, relevant United Nations bodies, other operators and relevant stakeholders, looking at preconditions for finance arrangements;

(d) **Methodology:**

(i) Partnership arrangements between national Governments, local authorities, community groups and financial intermediaries with which there are agreements for term repayment to the trust fund;

(ii) The experimental activities are different from the current Slum Upgrading Facility and Water and Sanitation Trust Fund arrangements in that some of the activities of the former are reimbursable whereas the latter are only given as grants;

(iii) The experimental reimbursable seeding activities shall be extended through intermediaries but shall exclude borrowing, direct lending, guarantees or equity investments;

(iv) Having a working operations manual to describe the processes for different reimbursable seeding operations and other innovative finance mechanisms in consultation with the Committee of and the Steering and Monitoring Committee;

(v) Taking into account a balanced regional approach;

(e) **Analysis:**

(i) Look at options and different partnership arrangements, including with Governments, local authorities, international finance institutions, relevant United Nations bodies, the private sector and major non-governmental organizations;

(ii) Look at cost of operations, defaults, targeting, debt service interest rates and currency exchange risk to assure proper risk management and to enhance local markets;

(f) **Collaboration:**

Collaboration, complementarity and partnership would be the key arrangements from the beginning;

(g) **Evaluation:**

External evaluations will be undertaken of the activities of the sector, including to evaluate progress on the implementation of the experimental reimbursable seeding operations and other innovative mechanisms and to assess alternatives for more effective implementation;

(h) **Administration:**

Separate necessary administrative and financial arrangements will govern the operations of the experimental activities of seed capital operations and other innovative mechanisms as described in the relevant regulations and rules of the Foundation;

(i) **Continuity / Steps forward:**
At the end of the experimental activities, in 2011, an evaluation will be conducted which will guide any decision by the Governing Council at its twenty-third session on potential future applications of the experimental methodologies;

III. The Way Forward

A. Responsibilities and Structures

DED and Ag. Director HSFD: The Deputy Executive Director and the Acting Director of the Human Settlements Financing Division (HSFD) will lead a process of strengthening the UNHHSF in line with Resolution GC21/10.

ERSO Task Force: An internal Task Force (“ERSO Task Force”), a sub-set of the MTSIP Task Force on Resource Mobilization, has been formed, headed by the DED with the Ag. Director of the HSFD as her deputy. This task force comprises senior staff all divisions to ensure the full integration of ERSO within the framework and action plan for the MTSIP.

The ERSO Task Force, in working with other task forces, will draw upon UN-HABITAT’s established connections with international finance groups (e.g. UN Advisors Group on Inclusive Financial Sectors, UNCDF, CGAP, etc) to:

- Prepare the Operations Manual to guide the implementation of ERSO;
- Develop a detailed Action Plan and Strategy including the identification of resource requirements for the experimental period 2008-2011;
- Provide technical support and supervision for the preparation of bankable experimental projects;
- Seek funding for the experimental activities, for both administrative and capitalization purposes;
- Devise and put in place the necessary internal procedures for administering ERSO in the experimental period including the monitoring and evaluation processes required;
- Promote ERSO and establish strategic partnerships with key IFIs and other relevant stakeholders.

ERSO Steering and Monitoring Committee: The ERSO Steering and Monitoring Committee (SMC) will be established in consultation with the Committee of Permanent Representatives. The SMC will bring together experts in the field of development finance, following the broad format of the ED’s intervention in the June CPR meeting soliciting recommendations for membership.

ERSO Technical Unit: a streamlined technical unit will be established within the Human Settlements Financing Division of UN-HABITAT and will report to the Director of that Division. Personnel for the ERSO Technical Unit, including a Managing Coordinator, a Financial Administrator, 2 to 3 Task Managers, a Knowledge Management Specialist, a Research Assistant, and an Administrative Assistant. The Technical Unit will be responsible, inter alia, for the identification, preparation, monitoring and supervision of ERSO projects during the experimental activities.

B. Initial Activities: September 2007 – April 2008

The principal activities for the period September 2007 – January 2008 are presented below. Several activities will take place in parallel. Chart 1 in the annex provides a conceptual overview on the different elements and steps while table 1 displays the envisaged ERSO Implementation Calendar from September 2007 to the first quarter of 2011.

(1) ERSO Operational Procedures (OP): a document presenting the procedures that will be apply for the operationalization of the ERSO Trust Fund. The OM will take into consideration the relevant
elements of the draft operational procedures and guidelines\(^1\) and will be presented to the CPR at its November 21\(^{st}\) meeting after review by a consultative group of external experts (see Activity 10). The OP will include:

(a) The purpose and objectives of ERSO;
(b) The organizational structure for implementation of the ERSO Trust Fund;
(c) The resources of the ERSO Trust Fund;
(d) Procedures for lending operations of the Trust Fund;
(e) Procedures for the preparation of the ERSO programme budget and ERSO projects; and
(f) Procedures for the administration of the ERSO Trust Fund.

(2) **ERSO Operations Manual (OM):** a detailed manual on the operational processes that will be used to operationalize and implement the ERSO Trust Fund. The OM will be presented to the CPR in November 2007 after review by a consultative group of external experts (see Activity 10). The OM will include a detailed description of the:

(a) Processes that will apply for the implementation of ERSO operations;
(b) Project cycle for ERSO operations;
(c) Administrative Arrangements for ERSO projects.

Also included in the OM will be:

- The Terms of Reference for the ERSO Steering and Monitoring Committee (SMC) for circulation amongst likely prospective members of the SMC; and
- Criteria for Country and Project Selection: a list of criteria to be used to identify prospective projects at the country level. This will draw upon selection criteria developed by SUF and WSTF, and take into consideration cities/settlements that SUF and WSTF have association with but have not yet worked in. Harmonisation with ongoing work on ENOF will be crucial in this regard.

(3) **Contextual analysis of IFIs and innovative financial mechanisms:** a rapid assessment of the kinds of mechanisms currently applied by key financial institutions (WB, regional development banks, IFAD, UNCDF, UN Advisory Board on Inclusive Financial Services, bilateral finance facilities, commercial banks, etc.). The analysis report will include: (i) an assessment of the kinds of mechanisms currently applied by key financial institutions in regard to shelter and related infrastructure for low-income households (WB, regional banks, WAD, bilateral finance facilities, commercial banks, etc.); (ii) the identification of the existing gap in the financial architecture, with a view to situate the ERSO Trust Fund strategically within the panoply of existing institutions and mechanisms; (iii) a summary of impacts and lessons learned; and; (iv) recommendations of policy guidelines, strategies and mechanisms for the ERSO Trust Fund.

(4) **Initiate Development of a Preliminary Project Pipeline.** A short-list of prospective experimental and innovative projects will be identified and work will be initiated on developing project profiles. A detailed schedule of prospective missions that leap frog off of existing mission schedules that can begin the process of identifying cities/settlements, banks/communities/local authorities to apply ERSO. Consideration of ENOF pilots will be important in this regard for coordination purposes. Project profiles will be prepared, presenting a brief (5 page) description of the project concept, describing the characteristics and parameters of the proposed project. The project profiles will be prioritized based on country and project selection criteria established in the ERSO Operations Manual. Prioritized projects will be developed into Project Concept Document.

(5) **Legal Review:** an inventory and analysis of the cooperation agreements and institutional arrangements that will be required to make ERSO functional. The key here will be to examine agreements/arrangements that are currently being used by SUF and WSTF, with focus on the

\(^1\) HSP/GC/21/5/Add.3
obstacles and solutions to running innovative finance mechanism through PSD, UNON and UN-HABITAT partners at global and country levels.

(6) Develop the ERSO Project Document: a formal UN-HABITAT project proposal covering the remainder of the experimental activities timeframe (September 2007 through April 2011). The document will include the standard project proposal sections: (i) Goal; (ii) Objectives; (iii) Outputs; (iv) Activities; (v) Required Inputs; (vi) Feasibility; (vii) Implementation Plan; (viii) Legal Framework; (ix) Monitoring; (x) Evaluation; (xi) Logical Framework Matrix; and (xii) Budget.

(7) Establish Foundation Loan Account and ERSO Trust Fund: in line with the requirements of the 300 series Regulations and Rules of the UN (2006), establish a dedicated loan account in order to run ERSO through the Foundation and not co-mingle funds for ERSO with other funds (especially WSTF and SUF). Establish within the Foundation Loan Account a Trust Fund dedicated to experimental reimbursable seeding operations. Consider ways to augment the reimbursable seeding operations with technical assistance necessary to apply ERSO, and with administrative costs of servicing ERSO within the Loan Account.

(8) Fund Raising and Promotion of ERSO: a funding target will be set of USD 10 million for 2008-2009 biennium to capitalize the Foundation ERSO activities with focus on bilateral donors, financial institutions and private foundations. Technical assistance including seconded staff from IFIs will be sought to augment cash contributions. The overhead percentage stipulations will be determined and new modalities and procedures will be considered to attract funds of private foundations that remain skeptical about such overheads. Promotional activities will comprise a systematic effort to reach out to and engage leading IFIs to explain/demystify/enhance the Foundation ERSO and to prepare for the membership of the Steering and Monitoring Committee.

(9) Expert Group Meeting: blue ribbon panel of experts: To help strengthen and inform the operational design of ERSO, a select group of internationally-recognized experts will be consulted with, initially during a “virtual” consultation process via email during October/November 2007, followed in Q1 2008 by a workshop in Nairobi. to the expert consultation will focus on the ERSO Operational Procedures and the ERSO Operations Manual including the Terms of Reference for the Steering and Monitoring Committee, as well as providing technical advice regarding the operationalization of the ERSO Trust Fund in general and of the ERSO Project Concept Documents in particular.

(10) Install ERSO Technical Unit: The Managing Coordinator of the Technical Unit will commence work in January 2008. One Task Manager will be hired during The remainder of the personnel will be assigned from existing UN-HABITAT staff or hired externally during the course of the first two trimesters of 2008.

(11) Convene First Meeting of Steering and Monitoring Committee: crucial here is the timing of such a meeting and the need to have other activities far enough developed so that the content of the first SMC is substantive and not procedural.

C. Subsequent Activities: May 2008 - April 2011

The principal activities for the period May 2008 – April 2011 are presented below. Several activities will take place in parallel (see also chart and table in the annex).

(1) Development of Management Systems. This is will comprise the following:

- Design of Monitoring and Evaluation System: a methodological framework and software tools for monitoring and evaluating ERSO, to provide accurate and timely information concerning the implementation progress; and

(2) Project Identification and Design: Building on the Project Concept Document, project identification and design will be undertaken for each project by a mission led by ERSO Task Managers with support from int’l and local consultants. The result will be a Project Identification Document.

(3) Develop Business Plans and Undertake Project Appraisal: Building on the Project Identification Document, project appraisal missions will be undertaken for each project by a mission led by ERSO Task Managers with support from int’l and local consultants. The result will be a Project Appraisal Document.

(4) Implementation of the ERSO projects: Following loan negotiation meetings in the country in which the project will be implemented, implementation of ERSO projects will commence, with seed capital and other innovative financial products provided through intermediary financial institutions in the selected countries.

(5) Monitoring and Supervision: Applying participatory methodologies, the ERSO Technical Unit will monitor and supervise the implementation of ERSO projects, in cooperation and coordination with the Regional and Technical Cooperation Division of UN-HABITAT and the UN-HABITAT Regional Offices.

(6) Project Evaluation: The experience to date of ERSO projects will be evaluated in Q1 2011, in preparation for the 23rd meeting of the Governing Council.

D. Key Issues and Questions to be addressed

a) Internal organisational interrelationships within UN-HABITAT
   • Relationships with WSTF and SUF and their respective Consultative Groups to be clarified;
   • Relationships with other Divisions of UN-HABITAT, UN-HABITAT Regional Offices and UN-HABITAT development partners to be defined;

b) ERSO Process and coordination within UN-HABITAT
   • Harmonizing internal and external activities to develop one clear agenda.
   • Integrate of ERSO activities within the MTSIP implementation plan. Locking in the pilot applications of ERSO with the ENOF activities at country level will be crucial.
   • Ensuring that ERSO is implemented within the wider effort of strengthening the Foundation institutionally, politically and financially vis-à-vis UNHQ and member States.

c) Project Selection
   • Selection of ERSO project countries based on transparent criteria;

d) Funding
   • Funding arrangements for the operationalization of the ERSO Trust Fund, including the establishment of the ERSO Technical Unit, pre-investment activities to prepare a project pipeline, and monitoring, supervisory and evaluation activities;
   • Funding for implementation of 8 to 12 ERSO projects in each of the four regions (Africa, Asia, Latin American and the Caribbean, and Eastern Europe);

e) Steering and Monitoring Committee
   • Composition, duties, timing and periodicity of the ERSO Steering and Monitoring Committee;
Annex


Table 1: ERSO Implementation Calendar September 2007 - 2009

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<th>ERSO IMPLEMENTATION CALENDAR</th>
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<td>1.2 Prepare ERSO Operations Manual</td>
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<td>1.3 Prepare Stocking Analysis</td>
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<td>1.4 Establish ERSO Trust Fund</td>
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<td>1.7 Prepare ERSO Project Document</td>
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<td>1.9 Develop Preliminary Project Profiles</td>
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