ERSO Operational Procedures and Guidelines

For the United Nations Habitat and Human Settlements Foundation Experimental Reimbursable Seeding Operations Trust Fund

February 15, 2008
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1. Introduction and Overview

1.1 This document presents the Operational Procedures and Guidelines of the United Nations Habitat and Human Settlements Foundation (UNHHSF) relating to the Experimental Reimbursable Seeding Operations Trust Fund (ERSO Trust Fund). This Fund was established, pursuant to Resolution 21/10 of 20 April 2007 of the Governing Council of UN-HABITAT (GC). It is part of the UNHHSF and is designed to support the introduction of experimental reimbursable seeding operations as well as other innovative financial mechanisms in support of low-income housing, related infrastructure and upgrading.

1.2 The ERSO Trust Fund will be implemented for four years, from 2007 to 2011, within the framework of the basic operative objectives of the UNHHSF, as set by the General Assembly. Its objective is to strengthen national human settlements programmes through the provision of seed capital and other credit enhancements, together with the necessary technical assistance, to mobilize domestic resources for housing and related infrastructure and services.

1.3 The GC envisaged that activities undertaken within the framework of the ERSO Trust Fund will draw on relevant best practices of international and regional financial institutions as well as national agencies, both public and private. The GC also called on the Executive Director, where relevant, to build upon existing experiences, instruments and partnership networks such as the Water and Sanitation Trust Fund and the Slum Upgrading Facility.

1.4 Resolution 21/10 further requested the Executive Director to submit, for the consideration of the Committee of Permanent Representatives of UN-HABITAT, proposed Operational Procedures and Guidelines for such experimental activities, taking into consideration the relevant elements of the draft operational procedures and guidelines which were presented to the Governing Council at its 21st session in April 2007.

1.5 The Operational Procedures and Guidelines (OPG) presented in this document draw upon the Financial Regulations and Rules of the United Nations (series 100) and particularly 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) which entered into force with effect from 1st August, 2006.

1.6 The OPG addresses the following:
   (i) Mandate, purpose, objectives and scope of the ERSO Trust Fund;
   (ii) The basic nature of ERSO Trust Fund activities (the overall model and the partners involved);
   (iii) Internal Administration of the ERSO Trust Fund, including a description of the actors and their responsibilities;
   (iv) Key implementation aspects and principles including the types of activities to be funded; basic implementations/delivery model; partners and their responsibilities; implementation principles; monitoring and evaluation arrangements.

1.7 The OPG sets out the principles and guidelines of ERSO operations which will be used by the Executive Director in preparing the ERSO Operations Manual (OM). The ERSO-
OM is a companion document to the OPG and provides details regarding the processes for different reimbursable seeding operations and other innovative mechanisms that will be financed through the ERSO Trust Fund. The OM addresses practical implementation questions including:

(i) Criteria for selection of projects;
(ii) Criteria for selection of partners;
(iii) Content of specific agreements between partners; and
(iv) Schedules and disbursement processes; reporting, monitoring and evaluation indicators.

2. Definitions

2.1 For the purpose of the present Operational Procedures, the following definitions in this section shall apply:

(i) “UN-HABITAT” shall mean the United Nations Human Settlements Programme;
(ii) “Foundation” shall mean the United Nations Habitat and Human Settlements Foundation (UNHHSF);
(iii) “Governing Council” shall mean the Governing Council of the United Nations Human Settlements Programme (UN-HABITAT);
(iv) “Government” shall mean the government of any State that is eligible for membership in the Governing Council of UN-HABITAT;
(v) “Executive Director” shall mean the Executive Director of the United Nations Human Settlements Programme (UN-HABITAT).
(vi) “Administrator” as referred to in the General Procedures Governing the Operations of the Foundation adopted by the Governing Council of the United Nations Environment Programme (UNEP) decisions 72 (IV) 1976, and amended by decision 94 (V) 1977 shall mean the Administrator of the Foundation;
(vii) “ERSO” shall mean Experimental Reimbursable Seeding Operations as established by GC Resolution 21/10;
(viii) “ERSO Trust Fund” shall mean the account in the Foundation Loan Fund to which contributions are specifically made for the ERSO.
(ix) “Reimbursable Seeding Operations” for the purposes of ERSO shall mean Foundation financial operations comprising seed capital loans and other credit enhancements to induce, encourage and enable existing domestic financial institutions to move downmarket and provide financial resources for lower income housing, related infrastructure and upgrading solutions.
(x) “Other innovative financial mechanisms” shall mean technical assistance activities implemented in cooperation with local partners to leverage domestic capital for urban low-income human settlement solutions.
(xi) “ERSO Programme of activities” shall mean the set of activities required to
implement ERSO projects during the four-year period from April 2007 to April 2011;

(xii) “ERSO Project” shall mean an activity separately identified within the ERSO programme of activities, to be carried out for a specific purpose and for a definite period of time;

(xiii) “Project Accounts” shall mean the sub-accounts of the ERSO Trust Fund through which loans are made for specific Projects.

(xiv) “Domestic Financial Intermediary” shall mean a Domestic Financial Institution (DFI) that engages in a Reimbursable Seeding Operation in partnership with the Foundation and that enters into a Credit Enhancement Agreement (CEA) with the Foundation for the express purpose of providing on-lending finance and/or other investments for an ERSO project.

(xv) “Credit enhancements” shall mean enabling activities which will enhance the ability of a Domestic Financial Intermediary to provide financing for low-income housing, related infrastructure and upgrading.

(xvi) “Credit Enhancement Agreement (CEA)” shall mean an agreement between the Foundation and an eligible Domestic Financial Intermediary in which the Foundation agrees to provide from the ERSO Trust Fund, a package of credit enhancements to the Domestic Financial Intermediary for the purpose of providing funding for experimental reimbursable seeding operations.

(xvii) “Collaborating Institution (CI)” shall mean the partner agencies, institutions, enterprises, entities and organizations from government, private sector and civil society that participate in a particular aspect of implementation of an ERSO project.

3. Mandate and Purpose of the ERSO Trust Fund

3.1 The mandate of the ERSO Trust Fund is derived from GC Resolution 21/10, which, inter alia, requested the Executive Director to:

(i) Continue the work of strengthening the Foundation so as to accelerate the provision of finance for the mobilization of seed capital, other credit enhancements, domestic and other financial resources for housing and related infrastructure with due priority to the needs of low-income households;

(ii) Establish a trust fund within the Foundation to support the introduction of experimental reimbursable seeding operations as well as other innovative financial 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.

3.2 The purpose of the ERSO Trust Fund, as specified in GC Resolution 21/10 (7)(a) is to:

(i) 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) 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.6

3.3 The experimental reimbursable seeding operations, other credit enhancements and other innovative operations will be carried in ERSO projects in select countries. The purpose of these projects will be to test, and refine financial and non-lending methodologies and mechanisms designed to induce, encourage and enable domestic financial institutions and private domestic capital investors to mobilize and provide financial resources for low-income housing, related infrastructure and upgrading solutions.

3.4 Strengthening the capacity of local financial and development actors to carry out ERSO-financed operations will involve undertaking activities to strengthen the institutional and organizational capacity of development actors to carry out the various roles involved in implementing ERSO programme of activities. ERSO capacity strengthening activities will target financial intermediaries, national and local government agencies, NGOs, low-income housing cooperatives, beneficiary groups and others involved in the implementation of ERSO programme of activities.

3.5 The urban poor are the primary target group of the ERSO Trust Fund and as such, due priority will be placed on the needs of low-income households in implementing the ERSO programme7.

3.6 Within the general objectives of the Foundation, ERSO will seek to:

   i) Promote and assist in all appropriate ways in fostering the mobilization of domestic resources for housing and related infrastructure and services and bringing about more effectiveness in their utilization;

   ii) Facilitate and to render assistance aimed at improvement in policies and operational effectiveness of institutions in housing and related infrastructure and services so that such institutions achieve durable capacity and self-sustaining viability;

   iii) Collaborate with other international, regional and national organizations interested in housing and related infrastructure and services and to complement, support and encourage their further work in human settlements and promote international cooperation in this field;

   iv) Help the international community in fostering more systematic and coherent efforts to deal with housing and related infrastructure and services, offering financial products and lending arrangements commensurate with the needs of developing countries and countries with economies in transition, particularly the needs of lower income groups.

   v) Assist in strengthening national human settlements institutions, policies, programmes and related activities in urban and rural areas particularly in developing countries by:

      • Providing seed capital and other credit enhancements together with the extension of necessary technical and financial assistance to permit an effective mobilization and leveraging of domestic resources for financing projects and programmes for housing and related infrastructure and services, and supporting the implementation of the Habitat Agenda, with due regard to the urgency and magnitude of the needs of lower income groups and slum dwellers (Millennium Development Goal 7, Targets 10 and 11);

      • Stimulating innovative approaches to pre-investment, pre-project and financing strategies for human settlements activities, while drawing on the

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6 GC Resolution 21/10 II 7(a)
7 GC Resolution 21/10 I(1)
accumulated practical experience and best practices of both the public and private sectors for mobilization of financial resources for human settlements;

- Providing technical assistance services in human settlements financing and human habitat management, including training facilities;
- Promote transfer and adaptation of appropriate scientific and technical knowledge on human settlements projects and programmes.

4. Organizational Structure of the ERSO Trust Fund: Actors and Responsibilities

A) General Assembly

4.1 The General Assembly of the United Nations has ultimate authority over the Foundation, including the ERSO Trust Fund which is established within the Foundation. The General Assembly has designated the Governing Council of UN-HABITAT as the governing body of the Foundation which includes the ERSO Trust Fund. The Governing Council reports to the General Assembly through the Economic and Social Council.

B) Governing Council

4.2 Under the authority and guidance of the Governing Council, the Executive Director is responsible for the management and administration of the Foundation as a whole, including the ERSO Trust Fund, with due regard to the terms of reference of the Foundation as stipulated in General Assembly resolution 332(XXIX) and reaffirmed in General Assembly resolution 56/206 of 21 December 2001.

4.3 The functions and responsibilities of the Governing Council with respect to the Foundation are set out in General Assembly resolutions 3327(XXIX), 32/162 and 56/206, among others, and include:

- To promote greater cooperation with member States, international organizations and partners in order to increase the availability of resources to all developing countries, especially those in Africa, and the least developed countries, and to promote the effective contribution of the private sector and local authorities and their associations;
- To promote adequate housing for all and sustainable human settlements development in harmony with the recommendations made by the United Nations Conference on Environment and Development in 1992, particularly chapter 7 of Agenda 21, taking into account, as appropriate, the relevant outcomes of other major United Nations conferences and summits;
- To continue to give overall policy guidance to and carry out supervision of the operations of the United Nations Habitat and Human Settlements Foundation;

4.4 In order to ensure the effective operation and implementation of the Foundation’s mandate, the Governing Council, as reflected in the special annex for UNHHSF (series 300) to the Financial Regulations and Rules of the United Nations (series 100), shall:

- Consider and approve the proposed programme budget of the Foundation (rule 302.2);
- Consider and approve plans presented by the Executive Director regarding the administration of the Foundation budget and the utilization of its funds, including for reimbursable seeding operations pursuant to UNHHSF Regulation
1.1, in accordance with the United Nations Financial Regulations and Rules and the special annex for UNHHSF to the Financial Regulations and Rules of the United Nations. (rule 305.3.1);

- Determine the limits and specify for which purposes the Executive Director may allocate funds to carry out the activities of the Foundation (rule 305.3.2.a);

C) **Executive Director/Administrator**

4.5 Under the authority and guidance of the Governing Council the Executive Director, as confirmed in General Assembly resolution 52/206, is responsible for the management and administration of the Foundation and, hence, the ERSO Trust Fund with due regard to the terms of reference of the Foundation as stipulated in General Assembly resolution 3327(XXIX) and reaffirmed in GA resolutions 32/162 and 52/206.

4.6 Under UNHHSF Financial Rule 301.1 the Secretary General has delegated authority and responsibility for the implementation of the Financial Regulations and Rules (series 300) in the annex to the Executive Director of UN-HABITAT.

4.7 Through the implementation of the ERSO Trust Fund, the Executive Director will undertake to strengthen the Foundation in order to achieve its primary operative objective and to support the implementation of the Habitat Agenda as stated in General Assembly resolution 52/206 as well as the Declaration on Cities and Other Human Settlements in the New Millennium, with a view to contributing to the goal of achieving significant improvement in the lives of at least 100 million slum-dwellers by 2020, and in recognition of the urgent need for the provision of increased resources for affordable housing and housing-related infrastructure and services, prioritizing slum prevention and slum upgrading.

4.8 The Secretary General shall act as custodian of the Foundation Funds and shall designate the bank accounts, and the signatories of these bank accounts. The Secretary-General may delegate to the Executive Director such authority with respect to the custody of the Foundation Loan Fund including the Trust Fund and its reserve as it will facilitate the efficient and effective management of the Trust Fund. The Executive Director may accept such delegation in writing.

4.9 The Executive Director shall consult, in accordance with financial rule 304.12, the Under-Secretary-General for Management on how funds of the Trust Fund and its reserve that are not required for disbursement immediately could be best invested and provisions of rules 104.13, 104.14 apply to these funds.

4.10 The Executive Director’s responsibilities also include:

i) Administration of the Trust Fund and providing technical and financial services related to the Trust Fund, including the establishment of programme guidelines and directives in a form of an ERSO Operational Manual.

ii) Seeking the cooperation and support of financial institutions in developed and developing countries, in fulfillment of the objectives of the Trust Fund;

iii) Undertaking fund-raising appeals and initiatives for a substantial increase of Trust Fund resources; and seek to obtain from Governments who pledge to contribute to the resources of the Trust Fund “instrument of commitment-qualified or unqualified”. Such firm pledges will enable the Executive Director to plan the

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8 UNEP/GC/36 Plan and Programme of Operation for the United Nations Habitat and Human Settlements Foundation B.4
9 A/RES/60/1, paragraph 56(m)
10 Pursuant to rule 304.6
11 ST/SGB/2002/14, paragraph 3.1(f)
ERSO programme of activities and will provide the basis for estimate of level and schedule of receipt of funds.

4.11 The Executive Director is also responsible for the administration of the Foundation including the Trust Fund and, as such, is accountable to the Governing Council for all phases and aspects of the operations of the financial resources of the Foundation, including the ERSO Trust Fund.

D) Deputy Administrator

4.12 The Deputy Executive Director in his or her capacity as the Deputy Administrator is responsible for managing the Foundation including the ERSO Trust Fund with the assistance of the Director of the Human Settlements Financing Division.\textsuperscript{12}

E) Steering and Monitoring Committee (SMC)\textsuperscript{13}

4.13 As stipulated in GC Resolution 21/10.II.7 (b) (ii), a Steering and Monitoring Committee (SMC) shall be established by the Executive Director to provide advice and guidance on ERSO programme of activities. The Steering Committee will comprise 12-14 members appointed by the Executive Director in consultation with the Committee of Permanent Representatives. SMC members shall be appointed for a term of three years.

4.14 The SMC will meet under the Chairmanship of the Executive Director. The SMC will meet at least once per year. SMC members will receive no remuneration.

4.15 The SMC will advise the Executive Director on issues related to the implementation of the ERSO Trust Fund, including policies, strategies, methodologies and actions to enhance the efficiency and effectiveness of ERSO programme of activities.

4.16 SMC members will be chosen to represent a broad range of understanding, experience and expertise in the commercial application of finance and its relationship with development in general and with low-income housing, infrastructure and slum upgrading. SMC members shall be chosen with due regard to regional representation, areas of professional expertise and the level of contribution by member States to the Foundation. Members of the Committee shall constitute a team of professionals knowledgeable in lending operations, financial systems, markets and project financing and management, economics, banking and micro-credit.

4.17 The SMC will comprise the following members:

- Representatives of donor countries that contribute a minimum threshold to be established by the Executive Director;
- One representative with expertise in the area of human settlements finance from each of the following regions: Africa, Asia, Latin American and the Caribbean, and Eastern Europe;
- The UN Controller will be invited to serve as an ex-officio member of the Committee;

4.18 In addition representatives from multilateral investment agencies, international and regional financial institutions involved in the financing of low-income human settlements solutions and from the private sector and major non-governmental organizations and UN-HABITAT partners may be invited as participants;

\textsuperscript{12} Id paragraph 10.1
\textsuperscript{13} HSP/GC/21/5/Add.3
F) **Financial and Technical Advisory Group**

4.19 A Financial and Technical Advisory Group (FTAG) of between 5 to 8 experts in pro-poor human settlements financial issues will be established by the Executive Director for the duration of ERSO to provide professional financial and operational technical advice to the Executive Director and ERSO Technical Team (mentioned below) regarding the design, implementation and evaluation of ERSO programme of activities.

4.20 Members of the FTAG will be appointed by the Executive Director for a period of 12 months and may be reappointed for further terms. The FTAG will meet physically at least twice a year and will be consulted “virtually” via internet, telephone and/or video conference on a periodic basis, as required.

G) **Director of the Human Settlements Financing Division**

4.21 The Director of the Human Settlements Financing Division (HSFD) of UN-HABITAT is responsible for the management of the ERSO Technical Team, which is located within the HSFD.

H) **ERSO Technical Team**

4.22 A small Technical Team will be established in the Human Settlements Financing Division of UN-HABITAT to provide technical and financial administration expertise in support of the ERSO programme of activities. Under the supervision of the Director, HSFD, the ERSO Technical Team will coordinate and provide technical support towards the identification, preparation, negotiation, monitoring, supervision and evaluation of ERSO projects. The ERSO Technical Team will prepare technical and financial reports on the advance of the programme of activities. A task manager approach will be used for identification and preparation of ERSO projects.

I) **UN-HABITAT Internal Working Group**

4.23 Internal coordination with other Divisions and units in UN-HABITAT will be achieved through an internal working group of UN-HABITAT that will meet on a periodic basis. The meetings will be chaired by the Director of the Human Settlements Finance Division and will bring together other relevant UN-HABITAT Divisions and units to ensure that ERSO programme of activities is implemented in a manner that is consistent with UN-HABITAT’s Medium Term Strategic Implementation Plan and with the results-based performance orientation of the Enhanced Normative and Operational Framework (ENOF).

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**5. Administration of the ERSO Trust Fund**

5.1 The establishment and management of the Trust Fund is governed by the United Nations Financial Rules and Regulations and the Special Annex for the United Nations Habitat and Human Settlements Foundation (series 300) to the United Nations Financial Rules and Regulations (series 100), and other policies or procedures promulgated by the Executive Director.

5.2 Voluntary contributions specifically for ERSO in the experimental period will come, as stipulated in UNHHSF Financial Rule 304.3.2 from governments, governmental agencies, and intergovernmental organizations and other public or private entities. In
addition, ERSO Trust Fund will have the following sources of income during a given financial period:\(^{14}\):

i) Interest and service charges earned in connection with reimbursable seeding capital operations and other innovative operations;

ii) Commitment charges in connection with loans made for reimbursable seeding capital operations, in cases where funds are set aside for DFI and not drawn down;

iii) Interest earned on investments pursuant to Rule 304.12;

iv) Repayments of loans which will replenish the ERSO Trust Fund.

5.3 Contributions to the Trust Fund may be accepted in United States dollars or other fully convertible currencies. Contributions in currencies which are not convertible may be accepted only if the Controller determines that the currency can be fully utilized in the implementation of the related activity. Contributions-in-kind may be accepted only if they can be fully utilized for activities relating to the purposes of the ERSO Trust Fund. Such contributions-in-kind shall be given an estimated monetary value by the Executive Director at the time the pledges are received.

5.4 Making a pledge and its acceptance are to be recorded in an exchange of letters, if deemed appropriate, in a more formal agreement.

5.5 The Trust Fund will be charged with thirteen (13) percent of all expenditures in respect of programme support services for the implantation of ERSO project, unless otherwise agreed with the Executive Director.

5.6 Mobilizing funds from private investors and lenders for projects in developing countries, particularly the private sector, is one of the Foundation’s most essential functions and will drive the resource mobilization strategy for ERSO. The Foundation will actively seek partners for joint ventures and raise additional finance by encouraging other institutions to make both direct and indirect investments in ERSO programme of activities. To achieve this goal ERSO will:

(i) Act as a catalyst in order to mobilize capital from institutions that would not invest without the Foundation’s involvement, thereby greatly increasing the leverage of its limited resources;

(ii) Strengthen partnerships with and between financial institutions, investors and clients in order to better match financial services to clients’ needs.

(iii) Build upon the SUF and WSTF relevant experiences to pioneer and promote public/private partnerships (PPP) and design and implement experimental and innovative financial operations structured in such a way as to mobilize local investment capital.

5.7 In accordance with operative paragraph 7(d) (v) of GC Resolution21/10, ERSO projects will be selected taking into account a balanced regional approach. ERSO projects will be selected in developing countries in Africa, Asia, Latin America and the Caribbean, and countries with economies in transition in Eastern Europe. The process for identification and preparation of projects will be detailed in the OM.

5.8 In keeping with the purpose of the ERSO Trust Fund (see paragraph 3.2), ERSO projects will be carried out in countries in which there are:

- an existing mortgage market,
- a stable macro-economic climate,
- a housing finance gap as evidenced by the lack of housing finance services for lower income households;

\(^{14}\) A/C.5.32/24, paragraph 39
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5.9 ERSO projects will also be selected based on their potential for success, their demonstration value and the degree of replicability. Projects that can be readily reproduced have a greater demonstrative value and will enable the Foundation to develop typologies of certain problems in the field of human settlements from which more or less standardized elements of solutions might be drawn and applied with appropriate modifications to suit the requirements of different situations. Similarly, the ERSO Trust Fund’s portfolio of projects will be selected to ensure a mix of experimental and innovative methodologies and a mix of project types.

5.10 A main factor that determines the allocation of the Trust Fund’s resources among eligible public and private institutions is each country’s needs and good performance in implementing policies that promote economic growth, poverty reduction and national human settlements development, and sound financial track-record of private institutions.

5.11 The amount of funds that the Foundation will provide as seed capital loans and other credit enhancements, and the number of projects that will be financed will depend, inter alia, on:

(i) Size of total amount of funds available in the Trust Fund;
(ii) Ability of the Domestic Financial Intermediaries and their pro-poor housing finance clients to absorb and effectively utilize funds of the Trust Fund;
(iii) The institutional capacity and the professional capability of the ERSO Technical Unit to identify, design and prepare ERSO projects and to monitor and supervise their implementation by DFI and/or other partners.

5.12 In collaboration with the Governments and institutions concerned, UN-HABITAT, through the reimbursable seeding operations of the ERSO Trust Fund, will give emphasis to programmes and projects for creating or strengthening appropriate institutions and systems necessary to mobilize primarily domestic resources, but also external funds, and to allocate both to the most appropriate investments, consistent with national and local objectives in pursuit of implementation of the Habitat Agenda. Emphasis will be placed on channelling resources to meet the needs of low-income groups with due attention to gender equity and youth empowerment. Such institutions will include savings and credit facilities which collect deposits from the household sector, including building societies, savings banks, credit unions and cooperatives, mortgage institutions as well as national housing banks or other publicly financed institutions engaged in resource mobilization and utilization.

5.13 In the allocation of ERSO resources the Foundation will also pay due regard to the desirability of maintaining geographic balance across the regions and correcting institutional inequities constraining access to decent housing because of gender or age dimensions.

5.14 The Executive Director will establish programmes, guidelines and directives to achieve the objectives of the Foundation experimental reimbursable seeding operations as mentioned earlier in a form of ERSO Operational Manual.

5.15 The Executive Director shall be responsible for execution of the Trust Fund, and ensuring that the Trust Fund is utilized for the purpose described in Chapter 3 above.

5.16 The Director of the Human Settlements Financing Division (HSFD), assisted by professional staff, will lead and coordinate the pre-investment activities related to project identification, preparation and appraisal, monitoring and supervision. Existing

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15 UNEP/GC/36, paragraph 53.
staff of the Foundation may be assigned by the Executive Director for service specifically to operationalize and administer the Trust Fund.

5.17 The Certifying Officer shall ensure that expenditures are incurred in accordance with existing financial and staff regulations, rules and procedures, for the purposes intended and within the limits allotted, and shall draw to the attention of the Executive Director any proposed commitments or expenditures which, in their view, is inconsistent therewith.

5.18 The planning, programming, monitoring and evaluation activities of the ERSO Trust Fund will be carried out in accordance with the relevant General Assembly and Governing Council policies and resolutions.

5.19 The following bank accounts may be established under the ERSO Trust Fund for the implementation of ERSO:

(i) A Local Currency Bank Account in each country where an ERSO project is implemented.

(ii) A Foreign Currency Bank Account in a country in which an ERSO project is implemented, when the establishment of such an account is deemed financially expedient by the Executive Director, taking into account the recommendations of the Financial and Technical Advisory Group.

5.20 In accordance with Rule 304.3.4, interest earned and gains realized from the operations of the Trust Fund shall be only credited to the Trust Fund. Conversely, all losses as a result of the operations of the Trust Fund shall be charged only to the Trust Fund.

5.21 All loan defaults by borrowers from the Trust Fund and other losses arising from the Trust Fund investments shall be reported by the Executive Director to the Governing Council.

5.22 The Trust Fund is subject to audit only by the Board of Auditors and the Internal Audit Division of the Office of Internal Oversight Services, under article VII of the Financial Regulations, the annex to the Financial Regulations and financial regulation 5.15.

6. Principles for ERSO Operations

A) Types of Projects

6.1 The operations of the ERSO Trust Fund will provide principally for the financing of specific projects, including those forming part of a national, sub-regional or regional development programme. ERSO projects are financed through reimbursable seeding operations which comprise seed capital loans and other credit enhancements as well as other innovative mechanisms to leverage domestic capital.

6.2 The basic ERSO delivery model involves the provision of seed capital loans and other credit enhancements to domestic financial intermediaries. This mixture of credit enhancements is designed to reduce the perceived and real risks that limit the ability of financial intermediaries to provide financing for low-income housing and related infrastructure. In the basic ERSO delivery model, financial intermediaries are enabled by the provision of ERSO-financed credit enhancements to provide financing to intermediary or final borrowers for the implementation of affordable housing solutions. ERSO Operations Manual will provide a detailed description of this basic ERSO model, as well as five specific models for the different types of ERSO operations:

(i) Low-income mortgage loan model;

(ii) Housing cooperative/rental model;
(iii) Infrastructure or utility loan model;
(iv) Short-term construction/housing developer finance model;
(v) Incremental home construction model.

6.3 The ERSO Technical Team within the Human Settlements Financing Division, in collaboration with other relevant units of UN-HABITAT, will assist in the identification, preparation, appraisal and supervision of ERSO projects. In performing these functions the ERSO Technical Team, under the supervision of the Director, Human Settlements Financing Division, will decide which kinds of expertise will be required for a particular task and then proceed to find and employ such expertise as required. A roster of qualified individuals and institutions will be established by HSFD.

6.4 The ERSO programme of activities will lay stress on projects that field-test innovative reimbursable seeding operations and other credit enhancements. In extending financial and technical services through the ERSO Trust Fund, the Foundation will pursue clearly identified, result-oriented objectives, with visible and verifiable outputs.

6.5 Institutional strengthening support will often form part of an ERSO project, to help build or strengthen institutions and organizations in order to enable them to effectively and efficiently implement the project and to help ensure the sustainability of ERSO financial mechanisms that are introduced during the implementation of an ERSO project. This may give rise to the need for assistance in the pre-investment and project preparation phases of an ERSO project. The Foundation, in its consideration of a support for an experimental financial operation, will take into account a time dimension so as to make provision, within the mandate of the ERSO Trust Fund, for assistance through different phases of project, including project preparation.

B) Arrangements and Specific Requirements for Lending Operations

6.6 A primary function of the ERSO Trust Fund is the provision of seed capital loans and other credit enhancements to induce encourage and enable existing domestic financial institutions to move low-income market segments and provide financial resources for low-income housing, related infrastructure and upgrading solutions. The Trust Fund will provide seed capital loans to Domestic Financial Intermediaries (DFI) from voluntary contributions at nominal interest or at no interest (with or without a service charge for administrative costs) for programmes and projects addressing the needs of the low income groups, particularly in slum areas.

6.7 In addition to the provisions in Chapter 5, above the following arrangements and specific requirements will be given due regard in developing ERSO activities.

6.8 The ERSO Trust Fund will make available seed capital loans and other credit enhancements for ERSO projects to eligible Domestic Financial Intermediaries (DFI).

6.9 The Foundation will not provide financing from ERSO Trust Fund if such financing is available from other sources on terms that are reasonable and affordable for the recipient.

6.10 All ERSO reimbursable seeding capital operations will require a “no-objection” certificate from the government in whose territories the project is to be implemented.

6.11 Loans will normally be extended to Domestic Financial Intermediaries for a period up to 20 years. The repayment period, however, should be set as short as possible in order to allow revolving use of the ERSO funds.

6.12 The Foundation will transfer loan funds from the ERSO Trust Fund to the Domestic Financial Intermediary in accordance with an agreed transfer schedule that will form part of the Credit Enhancement Agreement between the Foundation and the DFI. The loan amount and repayment schedule will be expressed in domestic currency.
6.13 A separate account will be established by the Domestic Financial Intermediary for the purpose of receiving loan disbursements from the ERSO Trust Fund in accordance with the Credit Enhancement Agreement that is established between the Foundation and the DFI for the purpose of carrying out a reimbursable seeding operation.

6.14 The DFI will pay to the Foundation a commitment charge on the principal amount of the loan not withdrawn in accordance with a specified disbursement schedule. A nominal interest rate per year or service fee may be charged on the outstanding principal of the Loan. The amount of the commitment charge, interest rate charge and/or service fee charge will be established by the Executive Director on the basis of local market conditions. Repayment of principal and interest will be made annually in accordance with the amortization schedule that will form part of the Credit Enhancement Agreement between the Foundation and the DFI.

6.15 The principal of, and interest and other charges on, the loan will be paid without deduction for, and free from, any taxes and free from all restrictions, imposed under the laws of the Domestic Financial Intermediary or laws in effect in its territories. Loans from the Foundation will be free of any taxes that will be imposed under the laws of the borrower or laws in effect in its territories on or in connection with the execution, issue, deliver or registration thereof, and, if and where a waiver cannot be secured, the borrower will pay all such taxes, if any, imposed under the laws of the country or countries in whose currency the loan is payable or law in effect in the territories of such country or countries.

6.16 The DFI will maintain or cause to be maintained records adequate to identify the goods and services financed out of the proceeds of the loan, to disclose the use thereof in the project, to record the progress of the project and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the ministries, departments or agencies of the Borrower responsible for the carrying out of the project or any part thereof or for the maintenance of all work facilities and equipment related thereto; and will enable the Foundation and its agents to inspect the project, the goods financed out of the proceeds of the loan and any relevant records and documents.

6.17 In making a loan, the Foundation will pay due regard to the prospects that the DFI and the ultimate borrower and its guarantor, if any, will be in a position to meet their obligations under the project document and/or contract.

6.18 The borrower will be permitted by the Foundation to draw its funds only to meet expenditure in connection with the project as they are actually incurred.

6.19 The Foundation, in collaboration with the Domestic Financial Intermediary, will take the necessary measures to ensure that the proceeds of any loan made by the Foundation are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency.

6.20 The Foundation, in preparing the reimbursable seeding operations and other innovative financial mechanisms, will look at costs of operations, defaults, targeting, debt service, interest rates and currency exchange risk to assure proper risk management and to enhance local markets.

C) Reports

6.21 The Executive Director shall report to the Governing Council on:

   (i) The status of the resources of the Trust Fund;

   (ii) The execution of the programme of activities; and

   (iii) The approval and execution of all individual projects.
D) **Cooperation with other Agencies**

6.22 In keeping with GC Resolution 21/10 I 5 UN-HABITAT will ensure coordination and seek collaboration in the framework of the United Nations Development Assistance Framework and the Common Country Assessment and continue to work with the World Bank, regional development banks, other development banks, regional organizations and other relevant partners. Such coordination and collaboration with other partners mentioned above will enhance UN-HABITAT capacity and ability to field-test innovative policies, practices and pilot projects in order to mobilize resources to increase the supply of affordable credit for slum upgrading and other pro-poor human settlements development in developing countries and in countries with economies in transition.

6.23 The Foundation will maintain close working contacts for promoting joint activities and fund raising for the Trust Fund with international and regional bodies within and outside the United Nations system, particularly with financial institutions, as well as with bilateral and other national, private and public organizations whose interests and operations relate to human settlements activities and their financing.

6.24 In implementing the Trust Fund, the Foundation will look at options and different partnership arrangements, including with Governments, local authorities, international financial institutions, relevant United Nations bodies, the private sector and major non-governmental organizations;

E) **Monitoring and Evaluation**

6.25 As stipulated in GC Resolution 21/10 II 7(g), external evaluations of ERSO activities will be undertaken to evaluate progress on the implementation of the experimental reimbursable seeding operations and other innovative mechanisms and to assess alternatives for more effective implementation. As an experimental initiative, periodic monitoring and evaluation of progress of individual ERSO projects will be key. The OM will specify the reporting requirements of domestic implementation partners, timing and organizational arrangements and define evaluation indicators for ERSO operations regarding the types of projects supported, the volume of funds leveraged and the number of clients served and their income levels. The specific targets set may vary between individual ERSO projects depending on conditions under which a given project is being implemented.

6.26 In addition to periodic project monitoring, a Comprehensive Evaluation Report of ERSO (CER-ERSO) will be conducted in 2011. The CER-ERSO will be considered by the Governing Council at its twenty-third session. Drawing on the findings and recommendation of the report the Governing Council at that session will provide further guidance regarding potential future applications of the experimental methodologies and application of effective methods for the Foundation to address its mandate.