Operational Procedures

For the Activities of the United Nations Habitat and Human Settlements Foundation Experimental Reimbursable Seeding Operations and Other Innovative Financial Mechanisms (ERSO)

20 March 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.

A) The Context

1.2 The Foundation was born out of recommendation 17 of the Action Plan for the Human Environment of the United Nations Conference of Human Environment held in Stockholm in June 1972. This recommendation was endorsed by the General Assembly in 1972 and subsequently developed into a proposal for the establishment of the United Nations Habitat and Human Settlements Foundation by United Nations Environment Programme (UNEP). The proposal was adopted by the General Assembly in its resolution 3327 (XXIX) and the Foundation became effective from 1 January 1975.

1.3 The primary objective of the Foundation is to assist in strengthening national human settlement institutions, policies, programmes and related activities in urban and rural areas, particularly in developing countries through, the provision of seed capital and the technical and financial assistance necessary to permit the effective mobilization and leverage of domestic resources for financing projects and programmes for shelter and related infrastructure and services and for supporting the implementation of the Habitat Agenda, with due regards to the urgency and magnitude of the needs of lower income groups and slum dwellers; the stimulation of innovative approaches to pre-investment, pre-project and financing strategies for human settlements activities while drawing on the accumulated experience of both the public and private sector actors for the mobilization of financial resources for human settlements; and the promotion of transfer and adaptation of appropriate scientific and technical knowledge on human settlements projects and programmes.

1.4 In December 1977, the General Assembly by its decision 32/451 adopted United Nations Financial Regulations 5.10 and 9.4 (now renumbered UN-Habitat Foundation regulations 1.2 and 1.1 respectively) giving the Foundation the authority to incur borrowing for reimbursable seeding operations, and to extend loans from borrowed and voluntary resources.

1.5 Within the overall framework of the primary objective of the Foundation and in line with special annex for the UNHHSF (series 300) to the Financial regulations and rules of the United Nations, the Governing Council at its 21st Session decided that the implementation of the mandate relating to reimbursable seeding operations will be on an experimental basis for a four year period from 2007 to 2011, and will be extended through intermediaries excluding borrowing, direct lending, guarantees or equity investment. In addition, the Resolution calls for the implementation of other innovative

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2 ST/SGB/2006/8
3 GC Resolution 21/10, para 7(d)(iii).
financial operations for financing for the urban poor for housing, infrastructure and upgrading through community groups.

1.6 A Trust Fund for ERSO has been established pursuant to GC Resolution 21/10, as part of the Foundation, 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.

1.7 The GC intends to have the experimental activities evaluated to assess the progress of the experimental reimbursable seeding operations and other innovative financial mechanisms in support of low-income housing, related infrastructure and upgrading, in order to assess alternatives for more effective implementation. At the end of the experimental period, the final evaluation will guide any decision of the GC on potential future applications of the experimental methodologies.

1.8 The GC envisages 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.

1.9 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 (OP) 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.

1.10 The OP presented in this document draws upon Resolution GC 21/10 and 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.

B) Structure of the Document

1.11 The OP is addressed at the GC and the CPR as the oversight bodies of UN-Habitat including the Foundation and UN-Habitat in regards to the implementation of Resolution GC 21/10. It covers the following aspects:

(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.

1.12 The OP 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 will be a companion document to the OP and will provide details regarding the

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4 GC Res 21/10, 7(g)  
5 GC Res 21/10, 7(i)  
6 HSP/GC/21/5/Add.3  
7 ST/SGB/2006/8
processes for different reimbursable seeding operations and other innovative mechanisms that will be financed through the ERSO Trust Fund.

1.13 The OM will be directed at the operational units of UN-Habitat in charge of implementation of ERSO activities, potential partners, interested governments and Habitat Agenda partners. The OM will inform and guide about practical implementation questions, including the following:

(i) ERSO approach and practical implementation strategy in detail;
(ii) Description of Project Identification, Development, Selection and Approval Processes;
(iii) Criteria for selection of projects;
(iv) Criteria for selection of partners;
(v) Content of specific agreements between partners; and
(vi) 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 fund established by GC Resolution to be set up in as an account in the Foundation Loan Fund to which contributions are specifically made to support the implementation of ERSO;
(ix) “Reimbursable Seeding Operations” for the purposes of ERSO shall mean experimental reimbursable seeding activities extended through intermediaries.

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8 All of these definitions are consistent with the definitions set out in 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). Some are identical namely (i, ii, iii, iv, v, vi, ix, xi, xii), some are adapted for ERSO namely (viii, ix, xi, xiii, xiv), the rest are new terms defined for ERSO namely (vii, x, xv, xvi, xvii, xvi, xix, xx).

9 Pursuant to Financial Rule 304.3.2(d)(i) as well as pursuant to UNHHSF Regulation 1.1 and GC Resolution 21/10 Operative Paragraph 1.2.
excluding borrowing, direct lending, guarantees10 or equity investments in accordance with GC Resolution 21/10, paragraph 7(d)(iii);

(x) “Other innovative financial mechanisms” shall mean non-lending financial mechanisms implemented in cooperation with local partners to leverage domestic capital for urban low-income human settlement solutions;

(xi) “ERSO 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 to domestic financial intermediaries 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 an Agreement with the Foundation for the express purpose of providing on-lending finance and/or other investments for an ERSO project.

(xv) “Agreement” shall mean an agreement between the Foundation and an eligible DFI in which the Foundation agrees to provide from the ERSO Trust Fund a package of options in the form of seed capital and other innovative operations for financing for the urban poor for housing, infrastructure and upgrading to the DFI for the purpose of providing funding for experimental reimbursable seeding operations;

(xvi) “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.

(xvii) “Steering and Monitoring Committee” (SMC) shall mean the Committee established pursuant to GC Resolution 21/10.II.7 (b) (ii).

(xviii) “UN Controller” shall mean the Assistant Secretary General of the Office of Programme Planning, Budget and Account.

(xix) “Certifying Officer”: A Certifying Officer is the UN official responsible for managing the utilization of resources, including in accordance with the purpose for which the funds were approved.

3. Establishment of the ERSO Trust Fund

3.1 The Governing Council in its Resolution 21/10 requested the Executive Director to establish a trust fund within the Foundation to support the introduction of experimental reimbursable seeding operations as well as other innovative financial mechanisms for a four-year experimental period from 2007 to 201111.

A) Purpose of the ERSO Trust Fund

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

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10 Not including support for non-liability, cash-deposit based guarantee mechanisms
11 GC Resolution 21/10 I (1) and (2)
(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.\(^{12}\)

B) Administration of the ERSO Trust Fund

3.3 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.\(^{13}\)

3.4 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.

3.5 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.

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

3.7 The overhead costs will be established with regards to the applicable UN rules, the discussions within the UN regarding programme support costs and the special nature of ERSO.

3.8 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.

3.9 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.

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

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\(^{12}\) GC Resolution 21/10 II 7(a)

\(^{13}\) See also GC Resolution 21/10, 7(h)

\(^{14}\) A/C.5.32/24, paragraph 39
(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.

3.11 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.

3.12 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.


C) Objectives and Scope of Experimental Activities

3.14 In accordance with GC Resolution 21/10 I(3) and (4), the overall purpose of undertaking experimental activities is to inform the Governing Council at its twenty-third session in relation to its consideration of HSP/GC/21/5/Add.3.

3.15 The operational objectives of undertaking experimental activities are both related to the substance addressed and the implementation process of experimental activities. To fulfil the purpose of the ERSO Trust Fund, ERSO activities intend to

(i) test and refine lending 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;

(ii) strengthen the capacity of local financial and development actors to carry out those operations;

(iii) exploring ways to enhance the capacity of UN-HABITAT to implement such experimental financial activities.

3.16 In implementation of the purpose of the ERSO Trust Fund, support for experimental activities may involve the following products and services:

(i) Provision of seed capital and support for other innovative operations for financing for the urban poor for housing, infrastructure and upgrading 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);

(ii) Provision of technical assistance services in human settlements financing and human settlements management, including training facilities;

(iii) Stimulating innovative approaches to pre-investment, pre-project and financing strategies for human settlements activities, while drawing on the accumulated practical experience and best practices of both the public and private sectors for mobilization of financial resources for human settlements;

(iv) 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;

(v) Promoting transfer and adaptation of appropriate scientific and technical
knowledge on human settlements projects and programmes.

3.17 Through support by the ERSO Trust Fund, the following products may be offered by
corresponding intermediaries and partners selected in the context of experimental
activities:

(i) Loans to individuals or shelter actors for pro-poor housing, related
infrastructure and upgrading;

(ii) Other innovative mechanisms and tools to enhance access to finance for low-
income residents and organisations supporting such groups;

(iii) Technical Assistance to individuals, community groups or other organisations.

3.18 ERSO activities will address the following target groups:

(i) The primary target group to be served eventually by the activities under the
ERSO Trust Fund are the urban poor. As such, due priority will be placed on
the needs of low-income households in implementing ERSO projects;

(ii) On the operational level, the primary target group for implementing
experimental seed capital operations and other innovative mechanisms will be
domestic financial institutions such as banks or microfinance Institutions;

(iii) ERSO capacity strengthening activities will target financial intermediaries,
national and local government agencies, NGOs, low-income housing
cooperatives, community groups and others involved in the implementation of
ERSO projects.

3.19 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 contribute to this goal, ERSO intends to:

(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.

3.20 With regard to the substantive impacts at country level, ERSO projects should
contribute to strengthening national human settlements institutions, policies,
programmes and related activities in urban and rural areas particularly in developing
countries.

D) Sun-setting Provisions for Experimental Activities

3.21 Resolution GC 21/10 defines a four-year experimental period from 20 April 2007 to 20
April 2011 and stipulates an evaluation to be undertaken of the activities at the end of

15 GC Resolution 21/10 I(1)
the experimental period\textsuperscript{16}. To meet this requirement and enable sound project evaluation, there will be no approvals of new reimbursable seed capital operations after 31 December 2010. Other new innovative mechanisms and technical assistance activities may be started up to 31 March 2011.

3.22 Since most housing and infrastructure finance operations, especially reimbursable operations, tend to be medium to long-term, pending the evaluation by the Governing Council at its twenty-third session in 2011 of the experimental activities conducted, it will be necessary to prepare a contingency mechanism to enable the completion of ERSO projects that have begun and have funds committed prior to the above-mentioned cut-off dates.

3.23 UN-HABITAT will develop a sun-setting mechanism for presentation to the 22nd meeting of the Governing Council in 2009. Possible Alternatives regarding the arrangements for ERSO activities in existence as of 31 March 2011 are:

i) Continuation of the activities in the existing organization arrangements;

ii) Contracting an international financial institution to administer the outstanding ERSO loan portfolio. The longevity of the contract would be for the duration of the loan retirement period as established in ERSO Credit Enhancement Agreements;

iii) Ownership transfer of the outstanding loan portfolio to a third party.

E) ERSO Budget

3.24 The Executive Director will submit an annual budget for ERSO Operations to the CPR including an update on the funding position.

\section*{4. Governance and Oversight}

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:

i) 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

\textsuperscript{16} GC Resolution 21/10 paragraph I (2) and II 7(h).
promote the effective contribution of the private sector and local authorities and their associations;

ii) 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;

iii) 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:

(i) Consider and approve the proposed programme budget of the Foundation (rule 302.2);

(ii) 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) subject to GC Resolution 21/10, 7 (d) (iii);

(iii) 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) Committee of Permanent Representative (CPR)

4.5 The CPR is a body established by the Economic and Social Council (ECOSOC) to serve as the Governing Council’s permanent intersessional subsidiary organ. Its role with respect to the review and monitoring of the implementation of ERSO activities is derived from the functions and responsibilities set out in ECOSOC Resolution 2001/48 and Governing Council resolution 18/1 which includes:

(i) Review and monitor, within the policy and budgetary framework provided by the GC, the implementation of the work programme of UN-Habitat, as well as the implementation of decisions of the GC;

(ii) Review the draft work programme and budget of UN-Habitat during their preparation by UN-Habitat.

4.6 To enable the CPR to discharge this role effectively, the Secretariat will provide quarterly progress reports on ERSO to the CPR through the working group. In addition, the CPR will review the draft work programme and budget of UN-Habitat, which includes ERSO activities, as part of its responsibilities indicated in 4.5 (ii).

D) Executive Director/Administrator

4.7 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.

17 UNEP/GC/36 Plan and Programme of Operation for the United Nations Habitat and Human Settlements Foundation
4.8 The Executive Director UN-HABITAT has been delegated the authority and responsibility for the implementation of the Financial Regulations and Rules in the special annex. This delegation of authority is subject GC Resolution 21/10, 7 (d) (iii).

4.9 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.

4.10 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.

4.11 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.

4.12 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 fulfilment 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 ERSO programme of activities and will provide the basis for estimate of level and schedule of receipt of funds.

4.13 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.

E) Deputy Administrator

4.14 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.

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18 Rule 301.1
19 A/RES/60/1, paragraph 56(m)
20 Pursuant to rule 304.6
21 ST/SGB/2002/14, paragraph 3.1(f)
22 Id paragraph 10.1
F) **Steering and Monitoring Committee (SMC)**

4.15 The Executive Director shall establish a Steering and Monitoring Committee (SMC) of 12 to 14 members 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. The Chair of the SMC will be appointed by the Executive Director from the SMC expert membership in consultation with the CPR.

4.16 The SMC will provide advice and guidance to the Executive Director on the implementation of ERSO activities. It will advise the Executive Director on issues related to the implementation of ERSO activities, including policies, strategies, methodologies and actions to enhance the efficiency and effectiveness of ERSO programme of activities.

4.17 SMC members will be appointed by the Executive Director in consultation with the CPR 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 in particular. SMC members shall be chosen with due regard to regional balance, areas of professional expertise and contribution by member States to the ERSO Trust Fund. The Committee will include professionals knowledgeable in lending operations, financial systems, markets and project financing and management, economics, banking and micro-credit.

4.18 The 12 to 14 members of the SMC will comprise the following:

   (i) 4 representatives of ERSO donors preferably with expertise in the field of finance;

   (ii) Experts in the area of human settlements finance;

   (iii) 4 representatives of Governments, including the chairs of the CPR and the group of G77 and China or those delegated by them, will also participate in the SMC.

4.19 The UN Controller will be invited to serve as ex-officio member on the Committee. The Director of the Human Settlements Financing Division will serve as ex-officio member and Secretary to the SMC.

4.20 The SMC will meet at least once per year and members will receive no remuneration. SMC members shall be appointed up to a period of four years.

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5. **Internal Mechanisms for Implementing ERSO Activities**

A) **Human Settlements Financing Division**

5.1 The Human Settlements Financing Division (HSFD) of UN-HABITAT will have overall responsibility for implementing the ERSO activities.

5.2 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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23 HSP/GC/21/5/Add.3  
24 GC Resolution 21/10.II.7 (b) (ii)  
26 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.

5.3 Within the Division, a small Technical Team (ERSO Technical Team) will be established to provide technical and financial administration expertise in support of the ERSO programme of activities. The core of the Technical Team will be formed by regular HFSD staff, supported by relevant UN-HABITAT administrative units. For specific tasks in relation to preparation and implementation of individual ERSO projects, a task manager approach will be used involving project staff or consultants funded out of designated contributions to the ERSO Trust Fund.

5.4 Under the supervision of the Director, HSFD, the ERSO Technical Team will in collaboration with other relevant units of UN-HABITAT coordinate and provide technical support towards the identification, preparation, appraisal, negotiation, monitoring, supervision and evaluation of ERSO projects.

5.5 In performing these functions the ERSO Technical Team, under the supervision of the Director, HSFD, 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 for that purpose.

B) UN-HABITAT Internal Working Group

5.6 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).

C) Financial and Technical Advisory Group

5.7 A Financial and Technical Advisory Group (FTAG), an ad-hoc group 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 regarding the design, implementation and evaluation of ERSO programme of activities.

5.8 Members of the FTAG will be selected by the Executive Director from a roster of human settlements financing experts. The FTAG will meet physically or will be consulted “virtually” via internet, telephone and/or video conference as the need arises.

6. Principles for Implementation of ERSO Activities

A) Types of Projects, Requirements and Selection Criteria

6.1 In accordance with operative paragraph 7(d) (v) of GC Resolution21/10, ERSO projects will be selected taking into account reasonable balance between different types of projects, regional representation and technical and financial affordability. 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.
6.2 In keeping with the purpose of the ERSO Trust Fund (see paragraph 3.2), ERSO projects will be carried out in countries in which the following requirements are being met:

(i) eligible location in accordance with 6.1;
(ii) a conducive macro-economic climate;
(iii) a housing finance gap as evidenced by the lack of housing finance services for lower income households;
(iv) a significant lack of affordable housing at lower income deciles;
(v) political will at the national and local levels to facilitate the mobilization of complementary resources; and
(vi) actors committed to successfully implementing ERSO programme of activities.

6.3 ERSO projects will be selected based on the following criteria:

(i) potential for success in relation to monitoring and evaluation criteria defined;
(ii) demonstration value and opportunities for replication in different settings;
(iii) expected timeline of the implementation;
(iv) each country’s needs and good performance in implementing policies that promote economic growth, poverty reduction and national human settlements development;
(v) sound financial track-record of private institutions involved.

6.4 The amount of funds that the Trust Fund will provide for the support of ERSO will be in the form of seed capital loans and/or support for innovative operations for financing for the urban poor for housing, infrastructure and upgrading. 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.

6.5 In collaboration with the National and local 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.

6.6 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.

B) Delivery of ERSO Activities

6.7 The ERSO delivery model involves the provision of seed capital loans and/or support for other innovative operations for financing for the urban poor for housing, infrastructure and upgrading to domestic financial intermediaries complemented by technical assistance activities. This mixture of support is designed to reduce liquidity constraints and/or perceived and real risks that limit the ability of financial intermediaries to provide financing for low-income housing and related infrastructure. Financial intermediaries are
enabled to provide financing to intermediary organisations or final borrowers for the implementation of affordable housing solutions.

6.8 With regard to specific operations implemented in practice by the DFI or local partners, the following applications represent potential options for delivery of ERSO seed-capital and services:

(i) Low-income owner-occupier loans and finance
(ii) Housing cooperative/rental financing;
(iii) Infrastructure or utility financing;
(iv) Short-term construction/housing developer finance;
(v) Finance for Incremental home construction.

6.9 The ERSO Operations Manual will provide a detailed description of the ERSO delivery model and its practical applications.

6.10 ERSO activities will lay emphasis on projects that field-test experimental reimbursable seeding operations and other innovative operations for financing for the urban poor for housing, infrastructure and upgrading. 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.

6.11 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 technical assistance in the pre-investment, project preparation and implementation phases of an ERSO project.

C) Project Development and Approval Process

6.12 The Process for project design, approval and implementation involves the following elements and steps:

(i) Promotion of ERSO and Project Identification
(ii) Preparation of Project Profiles
(iii) Technical Review 1 by ERSO Technical Team/FTAC
(iv) Preparation of the Project Business Plan
(v) Technical Review 2 by ERSO Technical Team/FTAC
(vi) Project Approval by Executive Director
(vii) Negotiation of Agreement with Domestic Financial Intermediaries
(viii) Implementation and Supervision
(ix) Reporting and Monitoring
(x) Evaluation

6.13 Following project identification and preparation of a project profile, an initial review will be undertaken by the ERSO Technical Unit/ and the FTAC to provide guidance about the potential of the project and the preparation of a business plan.

6.14 For each ERSO Project, a business plan will be developed by the Domestic Financial Intermediary, with optional support by the ERSO Technical Team or local partners, describing the scope of the project, including the estimated financial cost, target client group, quantifiable outputs, and establishing the financial viability and sustainability of the project from the perspective of the Domestic Financial Intermediary.

6.15 On the basis of the technical review, the ERSO Technical Unit and the FTAC will provide recommendations to the Executive Director regarding approval and
prioritisation of the project. The Steering and Monitoring Committee (SMC) will be informed about the submission of a business plan and the result of the technical review.

6.16 On the basis of technical review and optional written recommendations of the SMC, the Executive Director will approve the project.

6.17 Following Approval, an Agreement will be signed between the ERSO Trust Fund and the Domestic Financial Intermediary, describing the terms and conditions of the reimbursable seeding operations, including, inter alia, a description of the package of seed capital, support for other mechanisms and/or technical assistance, the financial terms including the time frame for disbursement and the nature of the financial products that will be made available to specified target client groups.

6.18 Further Implementation steps will involve establishing a local currency account, transfer of funds, provision of financial products by the DFI in accordance with the Agreement.

6.19 Further implementation activities involve reporting, monitoring and evaluation. The OM will provide a detailed description of this process.

D) General Arrangements and Requirements for Disbursements

6.20 A primary function of the ERSO Trust Fund is the provision of seed capital loans and support for other innovative operations for financing for the urban poor for housing, infrastructure and upgrading 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.

6.21 Financing will not be provided from the ERSO Trust Fund if such financing is available from other sources on terms that are reasonable and affordable for the recipient.

6.22 The Trust Fund will provide seed capital loans to 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.

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

6.24 Where loans are extended to DFI’s, they can be 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.

6.25 The Foundation will transfer loan funds from the ERSO Trust Fund to the DFI in accordance with an agreed transfer schedule that will form part of the Agreement between the Foundation and the DFI. The loan amount and repayment schedule will be expressed in domestic currency.

6.26 A separate account will be established by the DFI for the purpose of receiving loan disbursements from the ERSO Trust Fund in accordance with the Agreement that is established between the Foundation and the DFI for the purpose of carrying out experimental reimbursable seeding operations.

6.27 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 Agreement between the Foundation and the DFI.

6.28 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.

6.29 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.

6.30 The DFI will be required by the Foundation to take necessary measures to ensure that the loans granted to third parties from the loans received from the Foundation are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency.

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

E) Cooperation with other Agencies

6.32 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.

6.33 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.

6.34 In implementing ERSO activities, 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.

F) Monitoring and Evaluation

6.35 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.

6.36 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. The evaluation methodology will be based on the following principles:
(i) Number of ERSO operations designed and/or in the process of being implemented;
(ii) Ability to attract domestic partners for ERSO operations;
(iii) Average ERSO contribution per operation;
(iv) Domestic investments/savings mobilized per operation;
(v) Number of Low-Income Households served per operation;
(vi) Households served under ERSO within the range of income deciles defined per country operation;
(vii) Strengthened capacity of domestic financial institutions in affordable housing finance measured through:
   ▪ Existence of a bankable business plans for each operation;
   ▪ directly by comparative Institutional Capacity Evaluations (ICE);
   ▪ financial soundness of operations, e.g. loan repayments within the targets or achievement of a non-performing debt rate not more than 5% greater than the national rate for the housing sector loan portfolio in the respective country;
(viii) Repayment of reimbursable seeding capital by DFI which have received this capital from ERSO to the ERSO Trust Fund if provided in a loan arrangement;
(ix) Effectiveness of technical assistance activities with regard to individual or institutional capital mobilised;
(x) Effective project implementation in line with GC Resolution 21/10 and the OP and OM;
(xi) Effective implementation of monitoring and evaluation procedures;
(xii) Mobilisation of funds for the ERSO Trust Fund or for ERSO projects at domestic level;
(xiii) Employment Impacts: Number of local employees in terms of man years;
(xiv) Other societal, economic and environmental impacts achieved.

6.37 The OM will specify the reporting and monitoring requirements of domestic implementation partners, timing and organizational arrangements. The ERSO Technical Unit may subcontract specialized international or domestic financial or accounting institutions to provide support in the monitoring task.

6.38 The OM will further define monitoring and evaluation indicators for ERSO operations regarding the types of projects supported, the volume of funds leveraged and the number of clients served, their income levels and other factors. The specific targets set may vary between individual ERSO projects depending on national and local conditions under which a given project is being implemented.

6.39 The 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.

G) Reports

6.40 The Executive Director shall report to the Governing Council on the overall activities of UN-Habitat including the ERSO activities. The report will include:
   (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.
Annex 1: Terms of Reference for the ERSO Steering and Monitoring Committee (SMC)

Complementing OP Provisions 4.15-4.20

1. Membership (4.15)
The Executive Director shall establish a Steering and Monitoring Committee (SMC) 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. The Chair of the SMC will be appointed by the Executive Director from the SMC expert membership in consultation with the CPR. MC members shall be appointed up to a period of four years.

2. Composition and Profiles of Members (4.18, 4.19)
The 12 to 14 members of the SMC will comprise the following:

(i) 4 representatives of ERSO donors preferably with expertise in the field of finance.
(ii) Experts in the area of human settlements finance;
(iii) 4 representatives of Governments, including the chairs of the CPR and the group of G77 and China or those delegated by them, will also participate in the SMC.

The UN Controller will be invited to serve as ex-officio member on the Committee. The Director of the Human Settlements Financing Division will serve as ex-officio member and Secretary to the SMC.

3. Tasks (4.16)
The tasks of the Steering Committee will be:

(i) refine the draft ERSO Operations Manual reflecting the state of the art of this kind of transactional arrangements and the knowledge base of the SMC members;
(ii) advise the Executive Director on the methodologies and models relevant to ERSO projects that can best attract domestic capital into the housing and urban development process;
(iii) advise the Executive Director on the best structures and arrangements for the financing mechanisms envisaged under the ERSO mandate;
(iv) map out ways in which existing international and domestic finance bodies can contribute to and interact with ERSO;
(v) propose criteria how ERSO projects can best be designed, developed and implemented;
(vi) identify national policy frameworks, economic conditions and institutional arrangements necessary for application of ERSO projects;
(vii) advise on the relevant monitoring and evaluation processes that could be adopted in order to strengthen and build confidence about the ERSO approach;
(viii) report to the Executive Director for onward reporting to the Governing Council for UN-HABITAT.

4. Frequency and Organisation of Meetings (4.19)
The SMC will meet at least once per year throughout the period of the ERSO experimental period (2008 to 2011). Additional meetings may be scheduled as need arises. In between meetings, virtual consultation and briefings on key developments will be undertaken.

5. Compensation (4.19)
Steering Committee members will receive no remuneration, but will have travel and other meeting costs covered.