UN-HABITAT
FOR A BETTER URBAN FUTURE
United Nations
Human Settlements Programme
Urban Finance Branch

Presentation to CPR
ERSO Working Group
21 April 2010
Urban Finance Experience

• Urban Finance Branch manages two pilot finance programmes, the ERSO Trust Fund and the Slum Upgrading Facility

• These programmes focus on two types of financial products:
  – Microfinance housing lending
  – Project finance for neighborhood development/slum upgrading

• Together they cover income deciles from 30% down through bottom of the pyramid

• Both programs will be fully invested by September, 2010
Programme Reach

ERSO
Reach of Revolving Loan Fund (ERSO) (30th down to 85th income %)

SUF
Reach of Local Finance Facilities (70th Income Percentile to BOP)

30%

80%
ERSO Experience

• ERSO, the experimental revolving loan fund
  – Reviewed over 40 project proposals since 2009
  – Made 5 catalytic investments as of March, 2010
  – Supporting construction or improvement of over 35,000 homes
  – Catalyzing investments of over $550 m
  – Working with both public and private sector partners
    • Domestic Banks: DFCU, Azania, Bank of Palestine, Cairo Amman Bank
    • IFC, OPIC, DFID, PIF, Prodel/SIDA, Habitat for Humanity International
## ERSO Current Status

<table>
<thead>
<tr>
<th>ERSO Development Loan Transaction</th>
<th>Developmental quality screening</th>
<th>Due diligence in country (management, systems, etc.)</th>
<th>Credit quality/bankable transaction assessment</th>
<th>Government Approval</th>
<th>Final transaction structure agreed</th>
<th>Documentation approved</th>
<th>Final loan docs signed</th>
<th>Conditions Satisfied</th>
<th>Funded</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azania Bank/Mwanza peri-urban planning project-Tanzania</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>$500,000</td>
</tr>
<tr>
<td>AMAL/SAKAN affordable neighborhoods (OPIC, IFC, DFID) - Palestine</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Prodel-Microfinance Neighborhood development and microfinance-Nicaragua</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Best efforts agreed</td>
<td>Pending</td>
<td>Pending</td>
<td>Pending</td>
<td>Pending</td>
<td>Pending</td>
<td>Pending</td>
</tr>
<tr>
<td>Habitat for Humanity Nepal-apex lending progressive build loans</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>$250,000</td>
</tr>
<tr>
<td>DFCU-Kasoli, Uganda loans to developers for community redevelopment</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Expected by April 21</td>
</tr>
<tr>
<td>Lao PDR-micromortgage finance with local banks, IFC</td>
<td>Done</td>
<td>Pending</td>
<td>Pending</td>
<td>Pending</td>
<td>Pending</td>
<td>Expected by Sept. 2010</td>
<td>Expected by Sept. 2010</td>
<td>Expected by Sept. 2010</td>
<td>Expected by Sept. 2010</td>
<td>$250,000</td>
</tr>
<tr>
<td>RESERVE costs, fx exposure and credit risk coverage</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>n/a</td>
<td>n/a</td>
<td>Done</td>
<td>n/a</td>
<td>Done</td>
<td>As transactions close</td>
<td>$600,000</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
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<td></td>
<td></td>
<td><strong>$3,600,000</strong></td>
</tr>
</tbody>
</table>
SUF Experience

• The Slum Upgrading Facility Programme
  – 6 pilot Local Finance Facilities
  – Strong developmental boards
  – Reviewed over 90 small and medium scale credit enhancement proposals to finance community-led neighborhood improvements
  – Assisted by ERSO programme to achieve:
    • High credit quality standards for projects, and
    • Strengthened management teams for each Local Finance Facility (LFF)
Creating Sustainable LFF’s

• 2010 Steps for Pilot LFF's to build on achievements for long term sustainability
  – Hiring a permanent local CEO and CFO
  – Signing new form of Agreement with UN Habitat
    • Shifts management responsibility to LFF Board and staff
    • Accompanied by disbursement of all D&A funding
  – Detailed cash flow and risk analysis of pending projects
  – Setting up new format banking arrangements
  – UN Habitat ERSO credit staff review project pipeline and process
# SUF Current Status

<table>
<thead>
<tr>
<th>Pilot LFF</th>
<th>Step 1</th>
<th>Step 2</th>
<th>Step 3</th>
<th>Step 4</th>
<th>Step 5</th>
<th>Step 6</th>
<th>Legal Formation (Yogya BLUD)</th>
<th>Other comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>LFSUS</td>
<td>Done</td>
<td>Agreed-</td>
<td>Done</td>
<td>Done</td>
<td>In Progress</td>
<td>In Progress</td>
<td>n/a</td>
<td>Country advisor in place through August</td>
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<td></td>
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<td></td>
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<td>Signing May</td>
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</tr>
<tr>
<td>TAFSUS</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Following Step 1</td>
<td>In Progress</td>
<td>Form in UN Habitat legal for review</td>
<td>Follows Step 5</td>
<td>n/a</td>
</tr>
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<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solo Indonesia</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Done</td>
<td>Not needed</td>
<td>Done</td>
<td>n/a</td>
</tr>
<tr>
<td>Solo Yogya</td>
<td>Done</td>
<td>Done</td>
<td>By April 21</td>
<td>Done</td>
<td>Done</td>
<td>Not needed</td>
<td>Done</td>
<td>Sept.-Dec. latest</td>
</tr>
<tr>
<td>Ghana</td>
<td>Under review</td>
<td>Meeting board chairs in April</td>
<td>Done</td>
<td>Done</td>
<td>In Progress</td>
<td>After Step 2</td>
<td>In Progress</td>
<td>n/a</td>
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<tr>
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</tr>
</tbody>
</table>
DFCU Bank, Uganda: Funded ERSO Loan

- **COMMUNITY DEVELOPMENT PROJECT FINANCE** with government and private banking and private bank takeout mortgage finance
- **Partners**: Ministry of Land, Housing and Urban Planning, Tororo Municipality, DFCU Bank, Kasoli Housing Association
- **Loan type**: Institutional loan to DFCU for construction finance and then lending to end-users mortgage finance
- **Land**: Government land under trusteeship of Tororo Municipal Council currently occupied by 125 families.
- **Developmental aim**: Developing 125 secure tenure houses in Kasoli, Tororo Municipality
- **Housing stock design**: Ministry of Housing
- **Project Team**: DFCU Bank, Ministry, Tororo Municipality, Kasoli Housing Ass’n
DFCU Bank, Uganda (cont.)

- Total ERSO Investment size: **USD 500,000**
- Total Project Size: **USD 2,360,000**

**ERSO-DFCU Financial Leverage**

- ERSO: 21%
- Government in kind: 20%
- Government financial: 33%
- End-user savings: 5%
- DFCU: 21%
AZANIA Bank, TANZANIA: Funded ERSO Loan

- **MUNICIPAL LOAN** for peri-urban development
- **Partners**: Azania Bank; Mwanza Municipal Council (MMC)
- **Project type**: Development of area presently occupied by low-income families informally near the lakeside in Mwanza to create mixed use, formally titled sites and services development
- 2800 total plots have been planned in the new area
- **Land**: Development by the Mwanza Municipal Council.
- **Target Group**: 700 middle income and 2100 lower income sized plots. National government compensates current inhabitants and they are offered first refusal rights to formal plots
- **Type of transaction**: ERSO loan to Azania for physical land survey and provision of water, electricity in Phase 1
AZANIA Bank, Tanzania (cont.)

- Total ERSO Investment size: **USD 500,000**
- Total Project Size: **USD 4,554,231**

**ERSO-AZANIA Financial Leverage**

- Azania: 83%
- ERSO: 11%
- Mwanza City council: 6%
Habitat for Humanity Nepal: Funded ERSO Loan

- **WORKING CAPITAL LOAN FOR APEX NGO**
- **Partner:** Habitat for Humanity International Nepal, NGO
- **Project type:** community development loan to HFHI, to be on-lent to 11 credit cooperatives/village banks, which will in turn lend the funds to *Save & Build* groups of 12-18 people for incremental building/renovation
- **Target Group:** low-income dwellers
- **Number of units created:** 1,765 houses built/upgraded
- **Save & Build** methodology allows every family to benefit in cycles of saving and borrowing
- First time loan for this borrower, at transitional (below-market) interest rate
• Total ERSO Investment size: **USD 250,000**

• Total Project Size: **USD 750,000**

**ERSO- HFHI Nepal Financial Leverage**

- ERSO, 33%
- HFHI Nepal, 13%
- HFHI Equity Contribution, 3%
- End users in kind, 33%
- End users savings, 17%
Programa de Desarrollo Local (PRODEL), Nicaragua: Funded ERSO loan

- **WORKING CAPITAL LOAN** to Apex NGO supporting housing, microfinance for business and infrastructure development
- Prodel was created in 1993 with SIDA funding and support to finance infrastructure, housing and micro-finance products throughout Nicaragua
- To date approximately 100,000 families have benefited from Prodel activities
- $500,000 Working Capital Loan to Prodel to finance:
  - Infrastructure development,
  - Secondary lending to local MFI’s
  - Support microfinance housing loans in 16 regional cities in Nicaragua
- Precursor to bond issuance
Programa de Desarrollo Local (PRODEL), Nicaragua (cont.)

- Total ERSO Investment size: **USD 500,000**
- PURPOSE: General Corporate Loan as first step in attracting $20 m in social investment

**ERSO-PRODEL Financial Leverage**

- ERSO 3%
- Community savings 10%
- Social Investors (domestic and international) 87%
Affordable Mortgage and Loan Corporation (AMAL), Palestine: Funded ERSO Loan

- **Scaled Private Sector Construction** and long term IFI-Funded Mortgage Finance Program
- **Partners:** Palestine Investment Fund, OPIC, IFC, Bank of Palestine, Cairo Amman Bank, DFID, Aspen Institute’s MEII, CHF International, and World Bank Technical Assistance
- **Project Type:** Large-scale affordable housing programme providing up to 25-year fixed-rate and 5-year adjustable-rate mortgage financing
- **Target Group:** Low to middle-income Palestinian public sector workers, teachers, nurses.
- **Number of Units:** 30,000
Affordable Mortgage and Loan Corporation (AMAL), Palestine (cont.)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERSO</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Equity investors</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Debt investors</td>
<td>500,000,000</td>
</tr>
<tr>
<td>End users savings</td>
<td>125,000,000</td>
</tr>
<tr>
<td>Developer Investment to be refinanced from capital markets</td>
<td>800,658,500</td>
</tr>
<tr>
<td>Construction Finance to be refinanced from capital markets</td>
<td>800,658,500</td>
</tr>
<tr>
<td>PIF and donors: infrastructure</td>
<td>45,000,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2,274,817,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERSO</td>
<td>0.04%</td>
</tr>
<tr>
<td>PIF &amp; Donors: Infrastructure</td>
<td>2%</td>
</tr>
<tr>
<td>Construction Finance to be refinanced from capital markets</td>
<td>35%</td>
</tr>
<tr>
<td>End-users savings</td>
<td>5%</td>
</tr>
<tr>
<td>Developer Investment to be refinanced from capital markets</td>
<td>36%</td>
</tr>
<tr>
<td>Equity investors</td>
<td>0.11%</td>
</tr>
<tr>
<td>Debt investors</td>
<td>22%</td>
</tr>
<tr>
<td><strong>ERSO leverage</strong></td>
<td>2274.8x</td>
</tr>
</tbody>
</table>

Total no. of housing units: 30,000

ERSO leverage: 2274.8x
Local Finance Facilities, Indonesia

- 2 LFFs: Solo and Yogyakarta, Indonesia
- Both have met all terms for full funding and independent functioning as sustainable entities
- Solo is site of Asian Housing Conference in June
- Yogya will complete legal reorganization to BLUD format by September
- Excellent government support including financial and in kind contributions
- 15 projects under development to reach over 4,000 households
- Total investment value of USD5.15 million
Local Finance Facility, Sri Lanka

- 1 national facility “LFSUS”
- Fully viable and sustainable financially
- Excellent government support with USD 600,000 contribution for CE fund
- Projects a mix of in-situ and full settlement upgrading
- First project underway since Feb 09 Kirulapona (31 households) 0% NPL
- 5 further projects have completed bank negotiations for 70% and 50% guarantees; 2 more expected by May

- Projects reaching 1,194 households
- Total value to date USD 7.4 million

LFSUS Sri Lanka Financial Leverage Total $7,400,000

- Commercial lending $2,500,000 34%
- Land $240,000 56%
- Government subsidies $420,000 6%
- Other inputs $200,000 3%
- Community contribution and savings $80,000 1%
Local Finance Facilities, Ghana

- CREDIT ENHANCEMENT program to support community-led slum improvement projects
- Two Local Finance Facilities in Ghana (TAMSUF & STMA) with joint Secretariat for cost effectiveness
- Community-driven projects
- LFF boards include real estate developers, community groups, local banks
- Credit enhancement provided by LFF’s to projects proposed
- Housing support services approached through board involvement, TA funding
- Projects cover a range of settlement upgrading, in-situ as well as market upgrading
- Issues faced: affordability and access to local credit
- Government supportive but as yet have not matched with financial support

- Pilot to reach over 1670 households
- Total project value of USD3.1 million

Ghana TAMSUF and STMA Financial Leverage Total $3,100,000

- Commercial lending $2,520,000 (82%)
- Land $406,000 (13%)
- Community contribution and savings $128,000 (4%)
- Government subsidies $44,000 (1%)

URBAN FINANCE BRANCH Sept 11, 2009
CPR Working Group meeting 22
Local Finance Facility, Tanzania

- CREDIT ENHANCEMENT program to support community-led slum improvement projects
- Tanzania Local Finance Facility TAFSUS based in Dar es Salaam
- National program in collaboration with Ministry of Housing
- Strong government support including pledge of USD 650,000 capitalization for TAFSUS from Gov of Tanzania
- New CEO selected
- 5 projects under development now and we anticipate additional projects through key partners TAWLAT, Cities Alliance, Azania Bank and government
- Extra support and technical backstopping will be provided by SUF in Nairobi to ensure TAFSUS is successfully operational

Over 2000 households will be reached at overall project value of USD 3.58 million

TAFSUS Tanzania Financial Leverage Total $3,580,000

- Commercial lending through CE funds $1,146,000 (32%)
- Land $193,939 (5%)
- Community contribution $367,895 (10%)
- Government inputs $770,000 (22%)
- Other to be identified 31%
Lessons Learned: Microfinance Housing Loans

• **Expectations for the borrowing institution:**
  – A viable business approach suited to low-income end users
  – Consistently underwritten financial assets with understood, predictable outcomes and risks
  – End-user financial education and community follow-up as part of the program (directly or through partners)
  – Community savings schemes to eliminate moral hazard and add to credit quality

• **Subsidy as needed to make loan transactions affordable to low-income communities or individuals**

• **Detailed due diligence review of borrowing institution’s products, processes, projects, loan portfolios, capital structure**
Lessons Learned: Project Finance for Low-Income Communities

• Projects must be designed to be affordable to target end users
• And to create sustainable housing stock
• Land and infrastructure are key, especially in Sub-Saharan Africa
  – And often require municipal or national government commitment
• Clear understanding needed of both real estate development management and finance structuring
  – Tailored to the community
  – With good project management
  – And rational financial structure covering all costs
Where do we go from here?

• We started with pilots
• Now we can move to standardized financial products
  – Micro-mortgage loans for purchase of affordable homes
  – Microfinance loans for home improvement
  – Microfinance loans for Water and Sanitation hookup
  – Community Project Finance
• And to supporting the development of a new financial sector
  – Microfinance Housing
Loan Products based on Low-Income Market Needs

• **Individual micro housing lending**
  – Tailor tenure to borrower demand
  – Measure affordability and performance
  – Develop ability to underwrite based on informal incomes as needed
  – Ensure creation of good housing stock with funds loaned
  – Situated in viable neighborhoods, with amenities
  – With secure tenure
  – With resale potential

• **Group project finance**
  – Appropriate structure when land and services must be obtained, installed
  – Excellent finance structure for developing with density
    • Mixed use high rise housing
    • With commercial streams or sales of some units to middle class
  – Repayment capacity based on lease to own as well as direct ownership
  – When building or infrastructure is financed, construction quality must be good and will be closely monitored
Balanced Funding Support for Microfinance Housing Lending

- To reach low income level, some level of subsidy (government or NGO) and savings is required to make MFH feasible
Balanced Funding Support for Community Project Finance

**SUF**

### Total Projected Project Investment 2009 - 2013 $19,233,000

- **Land**: $5,009,939 (26%)
- **Community contribution**: $925,895 (5%)
- **Government inputs**: $2,159,000 (11%)
- **Commercial lending**: $9,836,000 (51%)
- **Other contributions**: $1,302,166 (7%)

• This is even more true for project finance for low income community development
• Individuals or communities in our programs can typically save between 5-10% of total cost
ERSO: Proposed Next Steps

• Pilot transaction phase is complete with Lao PDR deal
• To finish the experimental phase, we propose to:
  – Work with IFC to establish pilot Global Microfinance Housing Fund
    • Developing structure at IFC’s request for lending to domestic banks, MFI’s, apex organizations and for muni development projects
    • Set benchmarks and start to standardize loan products and approach
  – Work with social and impact investors
  – Assist in convening and establishing industry associations for MFH sector with industry participants and key partners
  – Assess usefulness and needed sizing of a transitional fund for NGO’s and MFI’s, with concessional rates
  – Complete Loan Administration and Cash Management with UN Treasury
  – Conduct evaluation through SMC, Homeless International and SIDA
SUF Programme: Proposed Next Steps

• Provide long term working capital facilities to LFF’s graduating from SUF program through IFC program
• Sponsor new LFF’s in post-disaster situations
  – LFF in Haiti with Capital One Bank
• Sponsor new and expanded LFF’s with partners in African context
  – Add city-wide program LFF’s in Africa in collaboration with Millennium Cities Program, AFD
  – Use LFF’s as part of national housing plans, in collaboration with Global Division, RTCD, Cities Alliance and Millennium Cities Program
    • Ghana, Uganda, Tanzania
Why Should UN-Habitat be involved in Housing Finance?

• Convening power of UN
• Unique ability to assess:
  – Housing support strategies (land, tenure, urban design and neighborhood planning)
  – Housing policy
  – Political risk to housing investment
  – Reputation risk of actors on the ground
• Unique expertise being built in Urban Finance team in microfinance housing structures
  – Capacity to act as intermediary between DFI, IFI investors and worthy community and local bank projects
• Urban Economics group ability to support thorough analysis of effective interventions
• Fits our global objective of shelter for all: All markets should be able to take advantage of this tool for leveraging savings and government support for shelter
How long should UN involvement in Housing Finance last?

• It has taken 30 years to build the microfinance (enterprise loan) sector
  – Still, too much reliance on donor-funded NGO’s
  – Only 270 fully viable, independent MFI’s exist today
  – And the largest secondary funder, Blue Orchard, has only $1.4 bn in funding

• If we can speed up the process for MFH with IFI involvement
  – Act as program manager for early stage social investment funds, attracting significant funding
  – Convene industry groups and promote norms

• Then a 5-10 year time horizon seems feasible for an exit with a viable microfinance housing sector
Thank you for your attention and your support!

Barbara Hewson
Angela Mwai
Saturnino Machancoses
Ludivine Cornille
Laura Cordero
Liz Case
Julio Norori