Evaluation of the Experimental Reimbursable Seeding Operations

Terms of Reference

1. Introduction

In accordance with the Secretary-General's bulletin of 19 April 2000 entitled "Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation" (ST/SGB/2000/8), the overall objective of evaluation is to determine, as systematically and objectively as possible, the relevance, efficiency, effectiveness and impact of the UN-Habitat activities in relation to their objectives and to enable the Secretariat and Member States to engage in systematic reflection, with a view to increasing the effectiveness of the main programmes of UN-Habitat by altering their content and, if necessary, reviewing their objectives.

The Governing Council of UN-Habitat, through resolution 21/10, has requested an evaluation of the Experimental Reimbursable Seeding Operations programme (ERSO) and a report is to be submitted at the 23rd session in early 2011. This strategic evaluation was therefore included in the evaluation plan for the 2010-2011 biennium work programme of UN-Habitat.

2. Background and Context of the Experimental Reimbursable Seeding Operations

The Experimental Reimbursable Seeding Operations programme (ERSO) was designed to operationalize Governing Council Resolution 21/10 through the establishment of a trust fund within the UN-HABITAT Foundation for a four-year experimental period from 2007 to 2011 to support the introduction of experimental reimbursable seeding operations and other innovative financial mechanisms. ERSO is a programme in the Urban Finance Branch under the Human Settlements Financing Division of UN-Habitat. In the context of the MTSIP, it is a core programme of Focus Area 5: "Strengthened human settlements finance systems" and is complementary to the Slum Upgrading Facility Programme, also within the Urban Finance Branch. ERSO is also linked to Sub-Programme 4 for improved investment in human settlements development leveraged by the Foundation from domestic private and public sources through innovative mechanisms for financing housing and related infrastructure.

The purpose of ERSO is to:

i) Field-test experimental and 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; and

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.
Goal

The strategic goal of the ERSO programme is increased sustainable financing for affordable and social housing and infrastructure.

ERSO contributes to progress of MDG Goal 7, Target 11 of significantly improving the lives of at least 100 million slum dwellers by the year 2020. The ERSO target group is low to middle income populations in Africa, Asia, Latin America and the Middle East.

Expected Accomplishments and Performance Indicators

Expected accomplishments include financing raised for and increases recorded in affordable and social housing stock and related infrastructure and increase in activities in municipal finance and affordable housing finance.

Specific performance indicators for the ERSO programme were developed at the time that the original Program Document was prepared and adopted within UN-Habitat in April 2008. These indicators were:

a) Number of ERSO operations in the process of being implemented (target: 8 – 12 total in 4 regions)

b) Average ERSO contribution per operation (target: min USD 0.5 million)

c) Domestic investments / savings mobilized per operation (target: Av. Leverage factor min 1:1)

d) Number of low income Households served (target: min. 1,600 households total / 200 per operation)

e) Households served under ERSO within the range of income deciles defined per country operation

f) Strengthened capacity of domestic financial institutions in affordable housing finance,

g) Strengthened capacity of domestic institutions and development actors in affordable housing delivery, infrastructure provision and upgrading

These indicators were developed before the ERSO programme was fine tuned and additional lending pilot ideas and capacity building activities were incorporated into the programme consistent with the overall programme, goals. Therefore the suggested questions for evaluation reflect the assessment of the broader programme goals in addition to the specific performance indicators originally developed in the program document.

Approach

With respect to field testing of financing, ERSO initially adopted a field testing approach of a standalone lending operation offering standardized, short term, small-sized loans of up to $500,000 in local currency at concessionary, below-market interest rates of between 1-2% to local banks and microfinance institutions, with the concept that the interest rate subsidy would encourage these institutions to make loans to low-income borrowers and projects. Subsequent to July 2009, ERSO developed and field tested other types of pilot structures, including providing long term international market-rate working capital lines to local microfinance institutions, and providing first loss loan funding to a major project partnership.
with World Bank, International Finance Corporation, Overseas Private Investment Corporation, Department for International Development and local banking institutions.

With respect to capacity strengthening, the ERSO team has taken a collaborative approach, working with local banks and microfinance institutions and nongovernmental organization partners to present the results of lending operations and lessons learned at international and regional urban development, microfinance and micro housing lending conferences. The ERSO team has shared insights on financial structuring and loan guarantee risk analysis and risk mitigation with Slum Upgrading Facility Programme Local Finance Facilities, and with slum upgrading real estate development projects sponsored by other areas of UN-Habitat. The ERSO team has further participated in discussions with Water, Sanitation and Infrastructure Branch on formation of funds for water plant upgrade project finance and on development with Inter-American Development Bank, KfW and ProCredit Bank of innovative water hookup micro lending in Central America. In addition, the ERSO team has participated in the planning of innovative municipal upgrade approached with Agence Françoise de Développement and Millennium Cities Initiative in Kisumu, Kenya; and worked on sector analyses with the Regional and Technical Cooperation Division and with the Urban Economics Branch of the Monitoring and Research Division in UN-Habitat.

Funding basis and loan portfolio activities

The ERSO Trust Fund for field testing lending (Reimbursable Seeding Operations) was funded by the Government of Spain, the Government of Bahrain and the Rockefeller Foundation for $3.6 million. UN-Habitat has reviewed over 50 potential loans to date under the field testing portion of the ERSO Programme. Five ERSO loan transactions were completed between January and May 2010 (with Azania Bank in Tanzania for $500,000; with DFCU Bank in Uganda for $500,000; with Habitat for Humanity International in Nepal for $250,000; with PRODEL in Nicaragua for $500,000; and with SAKAN Palestine for $1,000,000), bringing total funds disbursed to $2,750,000. This initial round of lending will support the creation and upgrading of over 33,000 affordable and social housing units in six countries (with housing investment to be made with leverage additional investment and project value of over 175 to 1 on our initial funding).1. Certain loan commitments were not able to be funded as loans following due diligence; the ERSO team then worked further with donors and sponsors to find, where appropriate, grant or similar funding for these projects. Lessons learned from these projects will be included in the September 20, 2010 presentation to the CPR Working Committee on ERSO, which will serve as documentation for this evaluation.

Further loan projects are being explored to make use of the funds remaining. Potential new lending projects will be presented to the Steering and Monitoring Committee at its meetings in Spain in October, 2010 and will be made available to the evaluation team at that meeting.

Capacity-building and Advisory Activities

ERSO provides financial advice to other projects and programmes within UN Habitat. This include:

1The April Presentation to the CPR Working Group on ERSO lists the completed projects, amount funded and leverage for each project.
• review of a proposed Water Operators Partnership fund for upgrading of Global South WOPS partner water facilities to highest environmental standards;
• review of financial planning for the Mavoko Community Group and Kewlat community housing development project involving Water, Sanitation and Infrastructure Branch and the Gender Unit;
• review of Slum Upgrading Facility partner internal credit and loan guarantee underwriting, project management and recovery standards in Ghana, Sri Lanka, Indonesia and Tanzania;
• and review of past or future community fund or microfinance institution seed funding proposed or given by the Slum Upgrading Facility or by the Regional and Technical Cooperation Division.

ERSO is in the process of developing collaborative arrangements with the Millennium Cities Initiative and with the Cities Alliance and to work collaboratively with the Shelter Branch of the Global Division, and the Slum Upgrading Programme of the Regional and Technical Cooperation Division to create a better policy coordination, market and housing stock baseline data and coordinated action plans.

3. Evaluation Purpose and Objectives

The overall objective of this evaluation is to evaluate progress on the implementation of the experimental reimbursable seeding operations and other innovative mechanisms and to suggest alternatives for more effective implementation. This evaluation is also expected to guide any decision by the Governing Council at its twenty-third session on potential future applications of the experimental methodologies. (GC 21/10, Part II, 7(i).

This evaluation will review progress on the implementation of the experimental reimbursable seeding operations and other innovative mechanisms and assess alternatives for more effective implementation. It will guide UN-Habitat Senior Management, the Urban Finance Branch Team, the Steering and Monitoring Committee and donors and interested partners on the degree of success of the reimbursable seed capital operations and other innovative financial mechanisms. Most crucially, it will inform future strategy and direction for Focus Area 5 activities on strengthened human settlements finance systems.

Results and recommendations drawn from this report will be presented to the Governing Council at its 23rd session for consideration and to guide any decision by the on potential future applications of the experimental reimbursable seeding operation methodologies.

4. Evaluation Scope and Focus

The evaluation will cover the period from January 2008 to present and will focus on processes and activities of ERSO in Nairobi offices as well as field projects. All ERSO lending transactions, advisory and capacity-building activities conducted to-date will also be covered by this evaluation.

The evaluation criteria of efficiency, effectiveness, relevance, sustainability and preliminary impacts from ERSO activities will be used. It will consider the ERSO programme design,

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2 GC Resolution 21/10 paragraph 7 (g)
processes and implementation as well as undertake an analysis of risk, including resource implications of the proposed mechanisms in ERSO and other activities tested during the experimental period.

In line with Resolution GC 21/10, the evaluation will cover the ERSO programme design itself as well as the outputs of the programme.

Lessons learned and recommendations based on key findings are required. Recommendations are expected to be practical, timed (immediate, mid-term and long-term) with clear responsibilities and estimated resources, if necessary.

5. Evaluation Criteria and Key Questions

This evaluation will be guided by four main criteria: effectiveness, efficiency, relevance and sustainability. The various pilot approaches and some aspects on progress towards the expected outcomes and impact that could be attributed to some of the ERSO projects will be assessed. The table below provides some suggested questions that will guide the focus of the evaluation. The evaluators have the discretion to add or modify suggested evaluation questions which will be discussed in the inception report.

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<tr>
<th>Evaluation criteria</th>
<th>Preliminary questions</th>
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| **Relevance**       | o How appropriate was the initial standalone lending ERSO model for UN-Habitat to pursue in the first place?  
                     | o How appropriate is an interest rate subsidy approach from a developmental economics standpoint? Can such an approach crowd out local lending and the development of a local financial sector?  
                     | o How appropriate is the long term working capital loan approach?  
                     | o How appropriate is the project partnership approach with major international financial institutions?  
                     | o Are there other lending and credit enhancement models that may be more relevant and that should be considered?  
                     | o Is there real demand for micro housing lending? Community project finance? The products and services that ERSO offers?  
                     | o Is there a market for private sector finance involvement in ERSO activities?  
                     | o Are incentives needed and/or appropriate to encourage such private sector involvement? Comment on the possible incentives used to-date other than interest rate subsidy (access to long term capital, first loss non-recourse loan investment, first money investment, other) |
| **Effectiveness**   | o Did ERSO meet intended and stated programme objectives? To what extent has ERSO achieved delivery of the expected outputs, targets and outcomes and what remains to be done?  
                     | o Are the ERSO credit reviews, risk and risk mitigation analyses, and revised operational procedures for lending consistent with good practice in international development lending?  
                     | o Have ERSO loan type or types reached target populations?  
                     | o Which ERSO loan type or types were most effective in reaching low income populations? |
| Efficiency | o Which loan type or types were most effective in reaching scale and addressing housing stock gaps?  
| o Which loan type or types were most effective in supporting development of municipal government approaches?  
| o Which loan type or types provided the most effective incorporation of support from National Government Housing Ministries?  
| o Is ERSO cost-effective?  
| o Does the ERSO programme have sufficient financial resources and staffing capacity to achieve its objectives or continue effective operations?  
| o Does ERSO have sufficient programme support from UN-Habitat and UNON to effectively administer its portfolio? Is the programme support in payment processing, accounting, loan administration and cash management, as implemented to date, effective?  
| o Is ERSO flexible enough to meet the needs of the different users and deliver the required products and services?  
| Sustainability | o Can UN-Habitat access the resources (funding and financing) needed?  
| o Is the present structure of ERSO a sustainable model over the longer term?  
| o Can private sector finance involvement be made compatible with UN-Habitat internal processes and procedures, or would another type of structure to support private sector involvement be preferable?  
| o Does UN-Habitat have the appropriate systems in place for a long-term lending operation?  
| Impact | o What are the preliminary direct and indirect impacts of the ERSO programme?  
| o What are the implications for housing finance for the underserved?  

### 6. Proposed Methodology

The consultants are expected to outline the details of their proposed methodology in their Inception Report. It is anticipated that the assessment will be organized as follows:

a) In – depth document review and analysis, which may focus on the following (also see list of background documents under 11 below.):
   i. The current 5 ERSO loan transactions and associated documentation;
   ii. Proposed additional partnership activities in micro housing finance;
   iii. ERSO lending process, including loan origination, loan administration and cash management and portfolio accounting
   iv. Financing structures and arrangements for ERSO transactions including project design, development and implementation;
   v. Financial advisory work done on behalf of other UN-Habitat projects;
   vi. SP4 conference presentations and related materials

b) Interviews with key stakeholders, both face-to-face and by telephone and email. Key stakeholders could include UN-Habitat staff, Steering and Monitoring Committee members, borrowers / project partners involved in each loan transaction, UN Treasury and UNON.
c) Field visits to project sites in selected countries

d) A comparative analysis of UN-Habitat ERSO operations in relation to international best practice with regard to the delivery of finance for low-income housing and infrastructure, and

e) In particular, review of other lending programs and operations within the UN system, UNCDF and IFAD, with comparative analysis of aims, organizational structures, staffing and operations of the other two programs within UN-Habitat with a lending mandate.

f) Participation in the ERSO Steering and Monitoring Committee meeting in Madrid, Spain, 13 – 15 October 2010

7. **Roles and Responsibilities**

The Monitoring and Evaluation Unit, which is responsible for coordinating monitoring and evaluation activities of UN-Habitat, will provide the overall management of this evaluation. The Unit will approve the terms of reference for the evaluation and oversee the process of selection and recruitment of the consultants. The M&E Unit will also review all the deliverables for quality and ensure compliance with the norms and standards for evaluation in the UN System.

The Director, HSFD, Chief, Urban Finance Branch and the team members of UFB will provide the administrative and logistical arrangements and support to facilitate the work of the consultants as appropriate. This will include ensuring that the consultants have access to all relevant documents needed for the review, making appointments for interviews, and arrangements for field visits. HSFD will also review all the deliverables of the evaluation to ensure factual accuracy.

The MTSIP Steering Committee will be informed of the process and will be invited to provide feedback to draft findings and recommendations. The donors will be invited to comment on inception and draft reports. The Steering and Monitoring Committee (SMC) of ERSO will also review the ToR, the inception report and the draft reports. The CPR Working Group on ERSO will be informed of progress and results of the evaluation throughout the process and the evaluation approach and the main ERSO findings will be presented to the CPR Working Group on ERSO for comments.

The evaluation will be guided by the United Nations Evaluation Group Norms and Standards.

8. **Main Deliverables of the Evaluation**

The consultant(s) should produce the following deliverables:

1. Inception Report (first payment = 20%) – the inception report (about 15 pages) will include proposed detailed methodology, assessment criteria / questions and work plan, justification and sampling criteria for field visits, and all other detailed related to work focus and programme leading to final evaluation outputs.
2. Draft reports (second payment = 40%) – the draft report (not exceeding 40 pages, excluding annexes) which will be circulated for comments.

Final reports (third and final payment = 40%) – the final report will incorporate all the back-and-forth comments from the draft report. The final report should have a clear stand alone executive summary. A proposed format for the report is attached.

9. Work Plan and Schedule

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<thead>
<tr>
<th>Output / Activity</th>
<th>Timeframe</th>
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<tr>
<td>Desk review and preparation of Inception Report</td>
<td>September 2010</td>
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<tr>
<td>Presentation of draft Inception report to UN-Habitat for review and feedback</td>
<td>12 October 2010</td>
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<tr>
<td>Attendance at ERSO Steering and Monitoring Committee in Madrid, Spain to present and finalize Inception Report</td>
<td>13 – 15 October 2010</td>
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<tr>
<td>Data Analysis and Drafting of Report; site visits as determined and agreed in Inception Report; on-going contact with UN-Habitat and other key stakeholders</td>
<td>October and November 2010; submission of first draft report by 6 December 2010</td>
</tr>
<tr>
<td>Drafting of Final Reports (comprehensive version and summary version for 23rd GC), incorporating comments and other requirements as appropriate and in discussion with UN-Habitat Senior Managers and other key partners</td>
<td>Through December 2010 and January 2011</td>
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<tr>
<td>Submission of Final Reports</td>
<td>31 January 2011</td>
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10. Required Qualifications and Competencies

It is anticipated that the evaluation will be done by two consultants recruited through a competitive process. The following experience is required:

- Extensive experience with international banking, particularly in lending and mortgage lending, microfinance (ideally micro housing lending) and financial transactions including experience with emerging, low income housing markets in developing countries;
- Extensive experience in housing finance for low to middle income markets, ideally in developing countries, and;
- Demonstrated ability and understanding of international best practice standards for banking and loan transactions for low and middle income target markets;
- Team leader should have extensive experience in conducting programme evaluations.

The evaluator(s) are required to disclose, in writing, any past experiences of themselves or their immediate family which may give rise to a potential conflict of interest and to deal honestly in resolving any conflict of interest which may arise. The evaluator(s) are also required to be familiar with the Code of Conduct for Evaluation in the UN systems and the United Nations Evaluation Group Norms and Standards.
11. **Key Background Documents for the Evaluation**

- Governing Council Resolution 21/10
- UN-Habitat Medium Term Strategic and Institutional Plan 2008 – 2013
- ERSO Project Document of April 2008
- UFB Presentation to the CPR Working Committee on ERSO, April 2010
- UFB Status Evaluation presented to Deputy Executive Director Inga Klevby and Director Bert Diphoorn May 2010
- ERSO credit memoranda on all 5 closed loan transactions
- Briefing Note to Deputy Executive Director on exploratory talks concerning IFC-Standard Chartered Global Micro Housing Facility (UN-Habitat facilitator role)
- Procurement material relating to loan administration and portfolio accounting for ERSO loan portfolio
- Evaluation of Mavoko project financial structure in connection with proposed loan to HFCK
- Other documents as requested and relevant