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**Strengthening the United Nations Habitat and  
Human Settlements Foundation**

**Strengthening the United Nations Habitat and Human  
Settlements Foundation**

**Report of the Executive Director**

*Summary*

The present progress report was requested by the Governing Council in its resolution 19/11, “Strengthening the United Nations Habitat and Human Settlements Foundation.” The report begins with a historical, institutional analysis of the Foundation from its inception up to and including the resolution. That analysis is followed by a description of four key concepts which underpin the Foundation – slum upgrading, coherence of international development intervention, domestic capital mobilization and financial packaging. The report then considers each of the operative paragraphs of resolution 19/11 and describes the specific actions which the Secretariat has taken to implement them. A concluding section provides recommendations, for consideration by the Governing Council at its twentieth session, on ways to strengthen the Foundation further.

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## I. Institutional history

1. The United Nations Habitat and Human Settlements Foundation (hereinafter “the Foundation”) was established by the General Assembly in its resolution 3327 (XXIX) on 16 December 1974 as a vehicle for mobilizing finance and investment for shelter and infrastructure. On 19 December 1977, in its paragraphs 1 and 3 (c) of resolution 31/162, the General Assembly founded the United Nations Centre for Human Settlements and incorporated the Foundation as a principal element of the Centre.

2. The joining of the Foundation with the Centre for Human Settlements, though logically sound and well intended, unfortunately resulted in the goals of the Foundation being realized only partially. Rather than serving as a vehicle for mobilizing investment for shelter and infrastructure initiatives at scale, the Foundation was confined to a cost-accounting function, a repository for member State voluntary contributions to the Centre. The Foundation was never adequately capitalized and it did not successfully catalyse public and private investment for human settlement as originally envisioned by its architects.

3. In 1996, the international community converged in Istanbul for the second United Nations Conference on Human Settlements (Habitat II) and adopted the Habitat Agenda.<sup>1</sup> Member States and Habitat partners placed financing human settlements centrally in the Habitat Agenda but did not succeed in revitalizing the Foundation. In fact, the cost of organizing Habitat II depleted the Foundation’s reserves, setting in motion a financial and managerial crisis and a loss of donor confidence.

4. A difficult period of restructuring ensued that led to the gradual revitalization of the Centre for Human Settlements. Committed donor countries financed the revitalization exercise led by Dr. Klaus Toepfer, Executive Director of UNEP and then Acting Executive Director of the United Nations Centre for Human Settlements (Habitat). The exercise resulted in the recruitment of senior managers, promotion of a cogent vision statement, introduction of advocacy and human rights instruments, tighter financial management procedures and the appointment of a new Executive Director, Mrs. Tibaijuka.

5. With the revitalization process safely under way, Mrs. Tibaijuka worked actively with member States to improve Habitat and revive the Foundation. In December 2001, the General Assembly in its resolution 56/206 transformed the Centre for Human Settlements, including the Foundation, into the United Nations Human Settlements Programme (UN-Habitat). Among other things, the resolution:

(a) Encourages the Executive Director to strengthen the Foundation in order to achieve its primary operative objective, as set out in resolution 3327 (XXIX), of supporting the implementation of the Habitat Agenda, including supporting shelter, related infrastructure development programmes and housing finance institutions and mechanisms, particularly in developing countries;

(b) Invites all Governments to increase their contribution to the Foundation to enhance the capacity of the Programme to support the implementation of the Habitat Agenda;

(c) Encourages the Executive Director of the Programme to continue her fund-raising appeals and initiatives for a substantial increase of Foundation resources;

(d) Calls for the active participation and collaboration of organizations and bodies within and outside the United Nations system, including the World Bank and regional development banks, in the activities of the Programme and its Foundation, in particular with regard to the provision of seed capital and the financing of operational human settlements projects and programmes, as well as developing appropriate and innovative approaches for financing its projects and programmes.<sup>2</sup>

6. In 2002, the Executive Director set out to implement the General Assembly resolution by increasing voluntary contributions, consulting with the World Bank and other international financial institutions and facilities and seeking support for the establishment of a dedicated Fund to mobilize investment for shelter and infrastructure. The first initiative entailed an intensive fund-raising drive to

<sup>1</sup> *Report of the United Nations Conference on Human Settlements (Habitat II), Istanbul, Turkey, 3–14 June 1996 (A/CONF.165/14), chap. I, resolution 1, annex I.*

<sup>2</sup> Resolution 56/206 II, paras. 2–5.

increase the voluntary contributions of donor countries, specifically to secure commitments for multi-year, general-purpose (non-earmarked) funding. Concerning engagement with the international financial institutions, the Executive Director consulted directly with the leadership of the World Bank, the International Finance Corporation, the Inter-American Development Bank and the Asian Development Bank. In the case of the Asian Development Bank, the consultation resulted in an agreement to fast-track lines of credit to cities which were piloting UN-Habitat water demand-management initiatives.

7. Consideration of a dedicated Fund to spearhead the revitalization of the Foundation came about after the Secretariat employed the services of consultants, with financial support of the United Kingdom Department for International Development (DFID) and the Swedish International Development Cooperation Agency (Sida), to identify financial gaps in human settlements development. The culmination of that effort was a study which recommended the establishment of a Global Shelter Fund and a Global Shelter Assistance Facility. Conceived as a driving force of a revitalized Foundation, the Global Shelter Fund would provide credit enhancements in the form of local currency guarantees to catalyse investment in shelter and related urban infrastructure. The Global Shelter Assistance Facility would augment the work of the Global Shelter Fund by making available to member States and Habitat partners technical assistance and seed capital to help prime investment, both private and public. Central to both the Fund and the Facility was a commitment to mobilize domestic capital and engage retail banks, housing finance institutions and microfinance institutions – the financial partners – in the process of slum upgrading.

## II. Governing Council resolution 19/11

8. In May 2003, at its nineteenth Session, the Governing Council deliberated on the appropriate means of implementing General Assembly resolution 56/206 in respect of strengthening the Foundation. The Governing Council acknowledged the efforts of the Secretariat to solicit the support of member States and welcomed the increase in voluntary contributions to the Foundation. Regarding the Global Shelter Fund and the Global Shelter Assistance Facility, the Governing Council raised concerns about the timeliness of such an initiative given the absence of a firm track record and the time needed for the Programme to stabilize fully after a period of revitalization.

9. Those deliberations resulted in the adoption of resolution 19/11, “Strengthening the United Nations Habitat and Human Settlements Foundation,” which calls for a more incremental approach. In the resolution, the Governing Council, inter alia:

(a) Commends the progress made by the Executive Director in strengthening the Foundation, as exemplified by the doubling of total financial contributions, including multi-year commitments to finance core programmes, and the forging of new partnerships with multilateral financing institutions and regional banks with a view to developing fast-track credit lines;

(b) Urges the international community to further extend its financial support to enable the Foundation to become effective in mobilizing domestic resources, both from the private and public sectors, for shelter and related infrastructure in developing countries, with special focus on the needs of slum dwellers and low-income people;

(c) Requests the Executive Director to continue the work in strengthening the Foundation so as to provide finance for, inter alia:

(i) Supporting the core staff and programmes of UN-Habitat;

(ii) Mobilization of seed capital, domestic and other financial resources for shelter and related infrastructure with due priority to needs of low-income households;

(iii) Technical support services to foster and improve effectiveness in developing countries and countries with economies in transition for the mobilization and utilization of domestic resources for the improvement of human settlements and to assist countries at both national and local levels in the preparation and implementation of project;

(d) Requests the Executive Director to continue to work with the World Bank Group, regional development banks, other development banks, the private sector and other relevant partners to

field test approaches through pilot projects and to develop longer-term programmes to mobilize resources to increase the supply of affordable credit for slum upgrading and other pro-poor human settlements development in developing countries and countries with economies in transition.<sup>3</sup>

### **III. Key concepts underpinning the Foundation**

#### **A. Slum upgrading**

10. The prominence of the term “slum upgrading” in recent years has much to do with the adoption by Member States of the Millennium Declaration, and especially so for target 11, “improving the lives of at least 100 million slum dwellers by the year 2020”. The United Nations system, including the Bretton Woods institutions, has internalized the targets, using them as a framework for inter-institutional cooperation. As the focal point for target 11, UN-Habitat uses the term “slum upgrading” to describe a range of actions necessary for improving the lives of slum dwellers. In its narrowest definition, slum upgrading is improving the built environment: housing, water, sanitation and related basic services. A slightly broader definition adds to that list employment, income generation and the leveraging of assets.

11. A yet broader definition of slum upgrading is the inclusion of processes that must be brought to bear in order to improve the built environment and the productive capacity of slum dwellers. They include securing the rights of slum dwellers to organize, to participate as genuine development partners and to be recognized as urban citizens. Improving the conditions of slum dwellers also entails strengthening the authority and capacity of local governments to adopt inclusive planning and management practices, including finance and land management. Implicit in the term “inclusion” is the promotion of partnerships between local authorities and slum dwellers, and between local authorities and private sector entities, including service providers, utilities and financial institutions. A further process element concerns political will and the policy and legislative reform which can bring about or accelerate the above – often referred to as the “enabling environment.”

#### **B. Coupling of pre-investment and investment-development interventions**

12. Two broad categories of interventions by development agencies to improve the lives of slum dwellers are pre-investment and investment-development interventions. The former concerns the advocacy, capacity-building, policy reform, and demonstration activities which promote processes of slum upgrading. The latter are the international loans to member States which finance housing and urban basic services in slums. Coupling pre-investment and investment interventions in slum upgrading is necessary but usually insufficiently elaborated. Advocacy, capacity-building, policy reform and demonstration initiatives rarely result in investment follow-through. Similarly, the disbursement of loans rarely draws upon pre-investment interventions, even those in the same city.

13. As the focal point for target 11, UN-Habitat seeks to facilitate cooperation between development agencies at country level by coupling pre-investment and investment-development interventions. That process involves efforts by the Secretariat to engage the World Bank Group and the regional development banks (for Asia, Africa, the Middle East and Latin America), where possible working through the poverty reduction strategies and country assistance strategies, and fast-tracking investment to cities in which the Secretariat is executing pre-investment activities.

#### **C. Domestic capital mobilization**

14. Significant amounts of capital are held in developing countries in the form of savings, property, pension funds and private investment. It is estimated that the net worth of institutional pension funds in Nairobi is over \$5 billion – roughly equal to five per cent of the estimated cost of achieving target 11! Attracting some of that capital for the purposes of slum upgrading is essential. Commercial banks in many developing countries lack access to long-term capital which can enable them to make mortgage or home-improvement loans. Local authorities also require long-term capital to make investments in urban infrastructure. The need to design and field test bond instruments which can tap domestic capital is crucial. Additional instruments which would enable financial institutions lend to slum dwellers and their

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<sup>3</sup> See resolution 19/11, paras. 1–4.

associations, such as loans which accommodate borrowers who lack conventional collateral and credit history, are also necessary.

15. Importantly, both slum dwellers and commercial bankers are innovating from different directions. The slum dwellers are saving and lending through daily savings associations, cooperatives and faith-based organizations, while the bankers are modifying lending instruments, recognizing their inability to reach a body of people who actually constitute most of the population. The Secretariat seeks to contribute to the process of mobilizing domestic capital for slum upgrading by field testing financial instruments through partnerships between slum dwellers, bankers and officials of local and central Government. Also, where possible, it seeks to engage loan guarantee facilities (The Private Infrastructure Development Group's GuarantCo, the United States Agency for International Development (USAID), the USAID Development Credit Authority and so on) which offer credit enhancements to banks, partially underwriting the loans which the banks make to low-income households.

#### **D. Financial packaging**

16. Many slum upgrading initiatives, including those focused on housing and basic service delivery, are not financially sustainable. The initiatives are often based on a project cycle which prescribes funding for a set period of time after which funding is at best uncertain at worst non-existent. This is especially so for State-sponsored projects with support from development agencies, but is also true for interventions led by non-governmental organizations: in neither case is the revenue stream thought through from the beginning. Large-scale, public-financed projects with loan support from multilateral and regional financial institutions also suffer a similar fate: the cost-recovery strategy for such schemes is often unrealistic given the purchasing power of the population and lacks a true costing of maintenance. Further, such schemes privilege loans over other sources of financing, and there is insufficient consideration of how to blend loans and private capital. Efforts by slum dwellers to mobilize their own resources to acquire land or improve their shelter and basic services are perhaps the most financially sustainable. However, they are limited in scale, in part because banks, investors, Governments or development agencies do not know about them, or find their approach incompatible with standard practice.

17. Financial packaging describes a set of activities necessary to render upgrading initiatives financially sustainable. It entails a process of engaging development partners and financial partners to package the financial elements of a particular slum upgrading project or programme, preferably before implementation. This includes unbundling upgrading initiatives, defining clear outputs and identifying sources of financing for each, distinguishing those outputs which can be funded as commercial transactions from those which require a targeted subsidy element. It also entails a dedicated effort to reduce project implementation costs and generate employment for slum dwellers. The Secretariat seeks to provide technical assistance in the form of financial packaging, building upon its demonstrated convening power to establish partnerships, both globally and also at the level of individual settlements and slums.

### **IV. Progress on implementation of resolution 19/11**

#### **A. Financial support of the international community to enable the Foundation to become effective in mobilizing domestic resources, from both private and public sectors, for shelter and related infrastructure in developing countries with specific focus on the needs of slum dwellers and low-income people**

18. UN-Habitat has demonstrated its commitment to mobilizing domestic resources for shelter and infrastructure by establishing a new global facility known as the Slum Upgrading Facility. The central objective of the Facility is to mobilize local domestic capital for slum upgrading activities in municipalities in developing countries. The Facility will achieve that objective by facilitating links between local actors and by packaging the financial, technical and political elements of development projects to attract such investment, which, to demonstrate the viability of those processes, will entail identifying projects, building local capacities, networking, providing direct technical assistance and, where appropriate, seeking bridging finance and credit enhancements.

19. The Slum Upgrading Facility is therefore designed to lead and coordinate technical cooperation and financing initiatives established to develop bankable projects which promote affordable housing for low-income households, upgrading slums and providing urban infrastructure in settlements in cities of the developing world. The key clients of the Facility are municipal authorities, community-based organizations, non-governmental organizations and the relevant departments of central Government, together with local authorities and the private sector, including retail banks, property developers, housing finance institutions, service providers and microfinance institutions, and also utility companies.

20. DFID and Sida have committed \$900,000 each to the initial 10-month design phase of the Slum Upgrading Facility. DFID has committed itself to providing a further \$10 million to the full, three-year pilot of the Facility, while Sida has pledged to match those funds through its country programmes where Facility pilot projects are identified. Other bilateral development cooperation agencies and private foundations have expressed interest in helping the Secretariat capitalize the three-year pilot of the Facility at a level of \$30 million.

21. The Slum Upgrading Facility is being implemented by the Human Settlements Financing Division (subprogramme 4) of the Secretariat in partnership with the members of the Cities Alliance and in close cooperation with the Facility's Consultative Board. In addition to DFID and Sida, the Board comprises the Government of Norway, the World Bank Group, United Cities and Local Governments (UCLG), Slum Dwellers International (SDI), a representatives of international commercial retail banks, representatives of local capital markets in developing countries and representatives of commercial banks in developing countries.

## **B. Strengthening the Foundation so as to provide finance for supporting the core staff and programmes of UN-Habitat**

22. Member States have significantly increased voluntary contributions to the Foundation. The Secretariat recorded a 50 per cent increase in overall voluntary contributions between the 2002–2003 and the 2004–2005 biennia based on actual pledges, and projects a further 64 per cent increase for the 2006–2007 biennium.

23. While overall contributions are up significantly, the core staff and programmes of UN-Habitat lack sufficient general purpose (non-earmarked) funding. The absence of longer-term, predictable funding greatly hampers the performance of the Secretariat, limiting its ability to function as a fully fledged Programme of the United Nations system. General-purpose (non-earmarked) contributions rose a modest 10 per cent whereas special-purpose (earmarked) contributions rose by over 120 per cent. Three major donor countries gave three-year commitments, for which the Secretariat is most grateful. However, seven other donor countries have confined their pledges to annual rather than multi-year commitments. The report of the Executive Director on the proposed work programme and budget for the biennium 2006–2007 (HSP/GC/20/9) provides more information on that situation.

## **C. Strengthening the Foundation so as to provide financial support for the mobilization of seed capital, domestic and other financial resources for shelter and related infrastructure, with due priority to the needs of low-income households**

24. The Secretariat, with support from the international community, has successfully strengthened the Foundation to mobilize seed capital, domestic and other financial resources for shelter and related infrastructure through the establishment of the Slum Upgrading Facility.

25. The Human Settlements Financing Division (subprogramme 4) of the Secretariat, with financial support from DFID and Sida, has launched the Facility by initiating a 10-month design phase, which commenced in September 2004 and is due to conclude in June 2005. The Secretariat has recruited five consultants to undertake the design phase, bringing in professional competencies in urban upgrading, investment finance and project finance.

26. The primary objective of the design phase is to develop a project pipeline by assessing the needs and capacities of member States and Habitat Partners, initially in West Africa, East Africa, South Asia, and South-East Asia. In February 2005, the Secretariat will have made assessments or scoping papers of

10 countries and selected four for in-depth pilot interventions. In March 2005, in two countries the Facility will make available seed capital to leverage domestic capital and other financial resources for shelter and related infrastructure. This will involve strengthening the capacity of local actors and facilitating partnerships between development and financial partners at country level.

**D. Strengthening the Foundation so as to provide financial support for technical support services which can foster and improve the effectiveness in developing countries and countries with economies in transition of the mobilization and utilization of domestic resources for the improvement of human settlements and to assist countries at both national and local levels in the preparation and implementation of projects**

27. The Secretariat has succeeded, through the establishment of the Slum Upgrading Facility, in strengthening the Foundation so as to provide technical support services that can foster and improve the effectiveness of member States in mobilizing and utilizing their domestic resources for slum upgrading. The Secretariat regards this as a first step which will provide a learning opportunity and inform ways of further strengthening the Foundation to fulfil this important objective.

28. As mentioned above, the Facility's design team is providing technical support services in 10 countries as part of its effort to identify a pipeline of pilot projects. That support entails working with local actors to assess the conditions of domestic capital markets, the political support for slum upgrading, the capacity of communities and local governments and the quality of actual partnerships and upgrading programmes.

29. In June 2005, the Human Settlements Financing Division intends to discontinue the Slum Upgrading Facility design team and replace it with two units within the division, the three-year pilot of the Facility and the Programme Development Branch. Both units will provide technical support services but a different kind. The Facility will provide in-depth technical assistance in four countries (four out of the 10 identified in the design phase); the assistance will include field testing financial instruments for mobilizing domestic capital for slum upgrading, and financial packaging services. The Programme Manager based in Nairobi will manage the provision of those services, overseeing the work of the Facility's management support team. The management support team – an international firm or consortium operating on a three-year management contract – will establish country implementation teams comprised of local professionals in each of the four pilots.

30. The Programme Development Branch will provide less dense technical advisory services to a wider range of countries, beginning with the countries identified by the design team and gradually expanding to other subregions. The Branch will consist of a lean staff of finance experts who will work closely with the regional offices of the Secretariat and the Habitat programme managers. They will contribute to and draw upon the lessons learned by the Facility's management support team, making available financial instruments and financial packaging techniques to local actors in other countries. The Branch will also take on additional roles including tool design and development, institutional relations, and fund raising.

**E. Continued work with the World Bank Group, regional development banks, other development banks, the private sector and other relevant partners to field test approaches through pilot projects and to develop longer-term programmes to mobilize resources so as to increase the supply of affordable credit for slum upgrading and other pro-poor human settlements development in developing countries and countries with economies in transition**

31. The Slum Upgrading Facility is part of other anticipated, longer-term programmes which the Secretariat will develop to mobilize resources for slum upgrading and other human settlements initiatives. As mentioned above, the Facility is a dedicated technical-assistance and bridge-financing facility to mobilize such resources for the purposes of increasing the supply of affordable domestic credit for slum upgrading.

32. Also, the World Bank Group and UN-Habitat are developing a cooperation framework for collaboration at country level with a view to harmonizing their efforts, initially in between five and seven countries, to improve the living conditions of slum dwellers. This will entail coupling the pre-investment initiatives and investment portfolios of the two institutions to increase resources for slum upgrading, including the supply of affordable credit.

33. The Asian Development Bank and UN-Habitat have successfully implemented their memorandum of understanding, which calls upon the Bank to fast-track lines of credit to cities participating in the UN-Habitat Water for Asian Cities Programme. With technical assistance support from the Government of the Netherlands, the Asian Development Bank and UN-Habitat seek to make further progress in Asian cities to increase the supply of water and improve sanitation for slum dwellers. While this does not as yet involve domestic capital mobilization, the Secretariat seeks to build on that component by augmenting public finance with domestic capital. Similar progress is being made with the African Development Bank, also on water, and with the Islamic Development Bank, on the housing finance element of the Special Human Settlements Programme for the Palestinian People.

## **V. Issues for consideration by the Governing Council at its twentieth session**

34. The Secretariat welcomes the views of the Governing Council on efforts over the past two years to implement resolution 19/11 and invites the delegations at the twentieth session to consider how to strengthen the Foundation. Specifically, member States are invited to:

(a) Strengthen the Foundation so as to provide finance for supporting the core staff and programmes of UN-Habitat by securing general-purpose (non-earmarked) funding, where possible with commitments for multi-year support;

(b) Fully capitalize the Slum Upgrading Facility at \$30 million, the initial three-year pilot phase target, augmenting the commitments of bilateral development cooperation agencies in order to enable the Foundation to achieve its mandate of mobilizing domestic capital for slum upgrading;

(c) Support efforts by the Secretariat to implement a cooperation framework between the World Bank Group and UN-Habitat, and similar framework agreements with regional development banks (the African Development Bank, the Asian Development Bank, the Islamic Development Bank and the Inter-American Development Bank), so as to harmonize interventions which support the efforts of member States to achieve Millennium Development Goal 7, targets 10 and 11.

35. The Secretariat invites delegations to contribute actively to the dialogue session on “Financing Shelter and Urban Development”. In addition to raising elements of financing human settlements, the dialogue will also serve as an opportunity for delegates to review progress to date on the forthcoming 2005 Global Report on Human Settlements, which will also focus on financing.