



UNITED
NATIONS

HSP

HSP/GC/21/5/Add.3



UN-Habitat

**Governing Council
of the United Nations Human
Settlements Programme**

Distr. General
8 March 2007

Original: English

Twenty-first session

Nairobi, 16–20 April 2007

Item 8 of the provisional agenda*

**Medium-term strategic and institutional
plan for UN-Habitat for the period 2008–2013**

**United Nations Habitat and Human Settlements Foundation: policy
framework and draft operational procedures and guidelines**

Note by the secretariat

Introduction

1. The purpose of the present document is to introduce the draft operational procedures and guidelines (referred to herein as the “draft Guidelines”, contained in annex I to the present document) of the United Nations Habitat and Human Settlements Foundation. It begins with background information on the Foundation, including its origins and objectives. It continues with a description of a policy framework for a proposed revolving fund account, a mechanism outlined in the draft Guidelines intended to kick-start the reimbursable seeding operations of the Foundation. This information is intended to assist the Governing Council to fulfil its responsibility to guide the policy direction of the Foundation and to provide the Executive Director with tools for effective control and management.

2. The Executive Director has prepared the draft Guidelines pursuant to a Bulletin of the Secretary-General (ST/SGB.2006/8, set out in annex II to the present document) in which the Secretary-General, on the basis of relevant United Nations financial regulations and rules adopted by the General Assembly, issued a special annex for the Foundation (series 300) to the Financial Regulations and Rules of the United Nations (series 100) of 1 August 2006. The special annex supersedes earlier financial regulations and rules of the Foundation and therefore necessitates the preparation of new operational procedures and guidelines. Rule 305.3.5 of the special annex envisages that the Governing Council will provide policy guidance to the Executive Director for the establishment of such operational procedures and guidelines in order to guide the reimbursable seeding operations of the Foundation. In preparing the draft Guidelines, the Executive Director has also taken into account the General Assembly resolution 61/206 of 20 December 2006, in which the General Assembly takes note of the special annex and requests the Governing Council at its twenty-first session to address in a comprehensive manner any issues relating to the Foundation, bearing in mind the need to mobilize resources for the Foundation effectively.

* HSP/GC/21/1.

K0761222 130407

For reasons of economy, this document is printed in a limited number. Delegates are kindly requested to bring their copies to meetings and not to request additional copies.

3. The Executive Director interprets the special annex cautiously and recommends a phased approach to the implementation of the draft Guidelines. Rather than commence with lending and borrowing operations as called for in the special annex for the Foundation, the secretariat proposes to confine lending solely from voluntary contributions to reimbursable seeding operations and to defer borrowing operations until 2013. It is envisaged that phase one (2007–2011) would be experimental in nature and would feature the introduction of a revolving fund account on a trial basis as a means of initiating reimbursable seeding operations in very small amounts comparable to the Foundation's current grant allocations (e.g. \$500,000 to \$2,000,000). The secretariat during phase one would draw upon voluntary contributions dedicated to the revolving fund account to undertake these operations. If phase one is successful, it is envisaged that in phase two (2012–2015) the Foundation would scale up its seeding operations, augmenting voluntary contributions by borrowing funds only from Governments and international organizations, again on a trial basis. Drawing upon the lessons learned in phase two, the secretariat would embark on phase three (2016–2020) with a view to mainstreaming lending and borrowing operations of the Foundation. The present document focuses on phase one.

4. It is anticipated that the Governing Council at its twenty-first session will endorse the draft Guidelines on the principle recommended by the Executive Director of a phased approach to their implementation. At its twenty-second session, to be held in 2009, the Governing Council may wish to review the progress made on the Foundation, including experience gained from the application of the revolving fund account on a trial basis, and at its twenty-third session, to be held in 2011, may wish to consider the findings of an external evaluation on phase one as the basis for determining whether to implement further lending activities and introduce borrowing operations.

5. The present document is organized into three chapters and three annexes. Chapter one provides information on the Foundation including its origins, mandate, objectives and operational activities. Chapter two describes a policy framework for the revolving fund account. Chapter three describes the draft Guidelines, highlighting key aspects of them. Annex I contains the draft Guidelines themselves, while annex II contains a reproduction of the Secretary-General's Bulletin containing the special annex for the Foundation on the Financial Regulations and Rules of the United Nation. Annex III contains the operational procedures and guidelines adopted in 1977, which now need to be updated in the light of the new regulations and rules for the Foundation.

Contents

| | | |
|------|--|----|
| I. | Background note on the Foundation | 4 |
| A. | Introduction | 4 |
| B. | UN-Habitat and financing for urban development | 4 |
| II. | United Nations Habitat and Human Settlements Foundation policy framework for a revolving fund account | 6 |
| A. | Introduction | 6 |
| B. | Comparative advantage of UN-Habitat | 6 |
| C. | Lessons learned and pointers for the future | 6 |
| D. | Short-term scope and implications of the new Secretary-General's Bulletin on financial regulations and rules | 7 |
| E. | Financial flows of the Foundation | 8 |
| F. | Phased approach to implementation of the Foundation's mandate | 8 |
| G. | Longer-term scope and implications | 9 |
| H. | Purpose of the Operational Procedures and Guidelines | 9 |
| I. | Next steps | 10 |
| III. | Summary of the draft operational procedures and guidelines of the Foundation | 10 |
| A. | Purpose | 10 |
| B. | Mandate | 10 |
| C. | Transparency | 10 |
| D. | Impact | 11 |
| E. | Targeted lending | 11 |
| F. | Revolving funds at the country level | 11 |
| G. | Revolving fund account of the Foundation at the global level | 11 |
| H. | Structure and capacity of UN-Habitat | 11 |
| I. | Cooperation with international financial institutions | 11 |
| J. | Phased approach | 12 |
| K. | Consultation | 12 |

I. Background note on the Foundation

A. Introduction

1. The Foundation is the financing mechanism for UN-Habitat in all of its projects and programmes and supplements the United Nations regular budget contributions to the staffing of UN-Habitat. The Foundation has been functioning in this way since 1978, when it was transferred from the United Nations Environment Programme (UNEP) to become the financing mechanism for the then Commission on Human Settlements and its secretariat, the United Nations Centre for Human Settlements (Habitat). The Commission on Human Settlements in its resolution 2/2 of 4 April 1979 noted a remark by the Executive Director of Habitat that the responsibilities assigned to the Foundation by the General Assembly were sufficiently flexible to allow it to be integrated with the other units of the Centre. In the same resolution, the Commission endorsed the functional integration of the Foundation and the use of its resources for the activities of the Centre as a whole. In its resolution 56/206 of 21 December 2001, the General Assembly formalized the Human Settlements Programme and mandated the strengthening of the Foundation to meet the challenges of urbanization facing the developing countries of the world in a serious way and to meet the expectations of the Millennium Development Goals, in urban areas in particular.

2. The Foundation was originally intended (see box 1 below) to become a financing instrument in its own right. A long process of alignment of the regulations and rules of the Foundation to enable it to perform this role was concluded on 1 August 2006 and resulted in the issuance by the Secretary-General of a special annex to the Financial Regulations and Rules of the United Nations (ST/SGB/2006/8), which, for ease of reference, is reproduced in annex II to the present document.

Box 1: Origins of the Foundation

In December 1977, the General Assembly adopted resolution 32/162 establishing the United Nations Centre for Human Settlements (UNCHS-Habitat), comprising the posts and budgetary resources of the Centre for Housing, Building and Planning of the Department of Economic and Social Affairs and the United Nations Habitat and Human Settlements Foundation. The responsibilities and functions of the Governing Council of UNEP and its Executive Director with regard to the Foundation were entrusted to the Commission on Human Settlements and its Executive Director. In the same month (December 1977), by decision 32/451, the General Assembly adopted United Nations Financial Regulations 5.10 and 9.4 (now renumbered Foundation regulations 1.2 and 1.1 respectively) giving the Foundation the authority to incur borrowing for reimbursable seeding operations and extending loans from borrowed and earmarked voluntary resources. In resolution 56/206 the General Assembly confirmed, among other things, the original mandate of the Foundation and the responsibilities and functions of the Governing Council and the Executive Director as envisaged in General Assembly resolutions 3327(XXIX) and 32/162. With the promulgation by the Secretary-General on 20 July 2006 of the new special annex for the United Nations Habitat and Human Settlements Foundation to the Financial Regulations and Rules of the United Nations (ST/SGB/2006/8), which superseded the Foundation's former financial rules of 1978 (ST/SGB/UNHHSF Financial Rules/3 (1978)), the Governing Council and the Executive Director were empowered to pursue the call made by the General Assembly to strengthen the Foundation and to develop it into a mechanism to assist developing countries with investments in housing and environmental management.

B. UN-Habitat and financing for urban development

3. Over the past five years, the desirability of UN-Habitat developing new and innovative financing mechanisms that deal specifically with urban development issues and concentrate on slum upgrading and prevention has been the subject of a series of studies and reports by financial experts in consultation with the major international financing organizations. This work has been funded by two international development cooperation agencies working in this area, namely, the Department for International Development (DFID) of the United Kingdom and the Swedish International Development Agency (SIDA).

4. The concept of developing sustainable financing mechanisms within the Foundation has been central to the findings of these studies.¹ A number of proposals have been derived from these studies and consultations with the international financial organizations. The idea of a global shelter facility acting as an international guarantee facility was presented to the Governing Council at its nineteenth session. Since this concept was seen to overlap with a number of other guarantee facilities such as the Private Infrastructure Development Group's GuarantCo and the United States Agency for Development (USAID) Development Credit Authority, it was not pursued. The concept of a global shelter assistance facility in this area was, however, developed further (see the PM Global Infrastructure report referenced in footnote 1). Its main drawback was that it did not feature an appropriate financing mechanism as envisaged when the Foundation was first established. In other words it lacked regulations and rules like those that have now been promulgated in the special annex to the financial regulations and rules.

5. In the meantime, in order to start testing the concept of leveraging domestic capital as a significant part of partners' schemes for new and upgraded very low-income housing, which is seen as the core mechanism for financing at the local level, DFID and SIDA, and more recently the Government of Norway, have funded the design phase and pilot programme of UN-Habitat's Slum Upgrading Facility. The design phase started in 2004 and the pilot programme started in four pilot countries in 2006 with the commissioning of the Emerging Markets Group to work with the UN-Habitat Slum Upgrading Facility Programme Management Unit on the ground with partners to field test the financial instruments required for slum upgrading and prevention (new very low-income housing) schemes. Central to this work is the concept of local revolving fund mechanisms building on community group savings and loans schemes. It works at the grass-roots level, including municipality-led community schemes such as housing cooperatives for target groups including women and youth. It therefore presents a very different working environment in comparison to the larger-scale schemes financed by the international finance institutions and regional development banks.

6. The special annex for the Foundation to the Financial Regulations and Rules of the United Nations will greatly facilitate the work of the Slum Upgrading Facility and, in due course, that of the Water and Sanitation Trust Fund. It calls for, among other things, guidance from the Governing Council on the elaboration of operational procedures and guidelines for the Foundation that take account of the special annex and enable UN-Habitat to establish a loan account, in the form of a revolving fund account, within the Foundation.

1 See Osman S. and Dyson M. 2002: UN-Habitat Financial Study, Final Report, EME, London 2002
Ljung P. 2003: The Global Shelter Facility – a proposed International Guarantee Facility for Housing and Municipal Development Feasibility Study March 2003, PM Global Infrastructure, Washington
Ljung P. 2003: Design of a Global Shelter Assistance Facility, PM Global Infrastructure, Washington
Ljung P. 2003: Meeting the Challenge: Proposal for the Creation of a Global Slum Upgrading Facility, PM Global Infrastructure, Washington 31 December 2003

II. United Nations Habitat and Human Settlements Foundation policy framework for a revolving fund account

A. Introduction

7. The revolving fund account seeks to fill a gap in the international architecture for financing affordable housing and related urban infrastructure. This gap is one of the major constraints to scaling up slum upgrading initiatives and to sustainable slum prevention. Public and private investment, including official development assistance, currently make up less than 5 per cent of the estimated resources required to “improve the living conditions of at least 100 million slum dwellers by the year 2020,” and to “reduce by half the households lacking access to safe drinking water”.² Two principal factors mitigating investment in human settlements are a lack of instruments with which to mobilize domestic savings and capital, particularly for low income and poor people in developing countries, and an absence of catalytic mechanisms for coordinating the efforts of development organizations in this regard. A closely related factor is a lack of awareness on the part of policy makers of the benefits of investing public funds – be they official development assistance or state, provincial or municipal funds – to leverage community savings and private investment.

8. The revolving fund account is designed to overcome these obstacles and to help meet the effective demand for housing and infrastructure by the urban poor. Operation of the fund will entail working with cooperatives, savings associations, microfinance institutions and local service providers to scale up the efforts by the urban poor to improve housing, water and sanitation. It will involve establishing effective mechanisms for engaging the domestic financial service sector³ to develop products commensurate with the ability to pay of the urban poor, who often pay a higher per unit cost for such services but lack verifiable income, credit history and tenure security.

B. Comparative advantage of UN-Habitat

9. UN-Habitat is well placed to establish a revolving fund account as a mechanism for addressing the complexity associated with financing pro-poor housing and basic services. The organization has for over 30 years established networks with urban poor organizations, local authorities and departments of central Governments for land, housing, local government, water, sanitation, urban planning and other related activities. Under more recent programmes, it works with micro-credit and domestic finance institutions, service providers and utility companies. It has a proven capacity to forge partnerships between these different actors and it uses this advantage to link policy development and pre-investment assistance with the lending operations of international financial institutions to assist member States to finance pro-poor human settlements development. It is an agency of the United Nations system with extensive community and municipal level networks. These networks enable UN-Habitat to connect low income and poor people and smaller and middle-sized municipalities with mortgage and infrastructure finance provided by standard commercial banks, be they national, regional or international. UN-Habitat is a founding member with the World Bank of the Cities Alliance, which provides grants for the preparation of pre-investment technical assistance to cities and municipalities. It also partners with regional development banks through its Water for African Cities and Water for Asian Cities programmes to ensure follow-up investment in pro-poor water and sanitation.

C. Lessons learned and pointers for the future

10. The Water and Sanitation Trust Fund and the Slum Upgrading Facility⁴ are demonstrating how relatively small amounts of seed capital combined with technical assistance can leverage substantial amounts of domestic and international financing for pro-poor housing and urban infrastructure development. They reduce transaction costs and enhance aid efficiency by combining the resources of

2 See targets 10 and 11 of the Millennium Declaration.

3 Mortgage institutions, building societies, pension funds and financial markets.

4 In addition, UN-Habitat established the Technical Cooperation Trust Fund for the Special Human Settlements Programme for the Palestinian People, adopted unanimously by the Governing Council at its nineteenth session. While not dedicated specifically to financial innovation, it includes resource mobilization initiatives in the West Bank and Gaza and demonstrates the importance of lending the weight of the Foundation to addressing the complex political conditions of human settlements in the Middle East.

donors, Governments, local communities and international financial institutions within a multi-year technical assistance and financing package. Both the Trust Fund and the Facility do so, however, on the basis of one-time grants.

11. The proposed revolving fund account will extend the seminal work of the Water and Sanitation Trust Fund and the Slum Upgrading Facility to further reduce transaction costs and perceived risks associated with slum upgrading and pro-poor urban development. This will involve complementing the existing business model with innovative revolving funds and financial instruments that package different sources of financing, including community savings, public investment, domestic private capital, grants and international loans, on a more self-sustaining basis. Revolving fund activities will provide for the first time a mechanism for mobilizing both international and domestic resources and for using them to scale up activities from one beneficiary group to another. At the same time the use of revolving funds will enhance beneficiary responsibility and buy-in.

D. Short-term scope and implications of the new Secretary-General's Bulletin on financial regulations and rules

12. The existing functions of the Foundation are discharged from two funding windows:

(a) The General Fund (or General Purpose Account) receives non-earmarked voluntary contributions from member States and other donors to fund the core advocacy and policy development activities of UN-Habitat's work programme;

(b) The Special Purpose Fund (or Special Purpose Account) receives earmarked voluntary contributions for specific purposes or projects such as the Slum Upgrading Facility, the Water and Sanitation Trust Fund and the Special Human Settlements Programme for the Palestinian People.

13. The Revolving Fund Account will be created as a new window of the Foundation for financing operations at the local or municipal level. This will be the account to which resources are specifically provided for "reimbursable seeding operations" at the local level through local revolving fund accounts hosted by local banks or finance institutions. These local banks and institutions will assume accounting and fiduciary responsibilities, thus obviating the need for the Foundation to be involved in fiduciary functions directly. The local revolving fund accounts will be set up specifically to provide improved access to credit by local partners engaged in pro-poor housing and infrastructure development. They will cater for groups that would otherwise not have access to institutional credit because of lack of organizational ability and ability to gain credit on their own. Their primary purpose will be to combine the pre-investment assistance provided by UN-Habitat and the seed capital provided by the Foundation to leverage local domestic capital. In this respect the local revolving fund accounts will offer donors a new window of opportunity for more sustainable use of their grant funds at no new risk. On the contrary, through the introduction of revolving mechanisms, donor funds will be multiplied by the leveraging of domestic capital not possible under the pure grant system that is currently in operation.

Reimbursable seeding operations

The new rules define "reimbursable seeding operations" as the lending of funds by the Foundation through the provision on a reimbursable basis to eligible public and private institutions, with special emphasis on developing countries and countries with economies in transition, of seed capital and loan guarantees, including housing loan insurance and equity investments, for the purpose of supporting the mobilization and effective utilization of domestic financial resources for human settlements by local lending financial institutions, particularly housing finance and community based savings and loans organizations, and other institutions engaged in low cost housing and slum upgrading programmes.

14. Each window of the Foundation will seek voluntary contributions from member States and other potential donors and will have its own current and reserve accounts. Funds deposited in the different windows will remain segregated and will be accounted for separately.

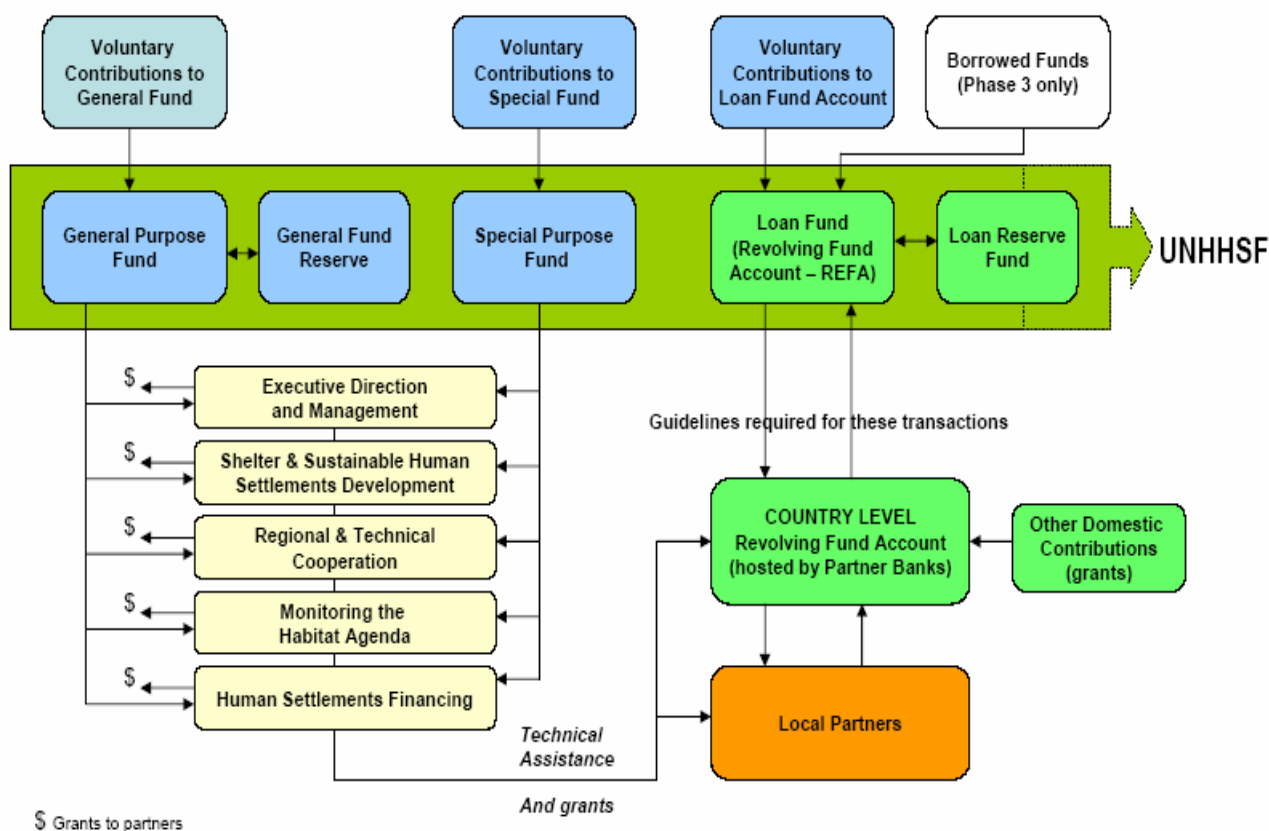
15. A lending operations review committee will be established and will be chaired by the Executive Director of UN-Habitat, to whom authority for the running of the Foundation, under the oversight of the Governing Council, has been delegated by the Secretary General.

E. Financial flows of the Foundation

16. Figure 1, below, summarizes the financial flows of the Foundation. Attention is drawn to the three core Foundation fund accounts and their respective reserves. The current lack of a revolving fund means that there is no current mechanism for addressing investment and scaling up issues at the local level. Without the revolving fund, there is also no clear mechanism for mobilizing domestic capital. The centrality of the Human Settlements Financing Division in the organizational structure of UN-Habitat should also be noted, as it will enable other core divisions to scale up their activities through the revolving funds.

Figure 1

Financial Flow Chart for the United Nations Habitat and Human Settlements Foundation



F. Phased approach to implementation of the Foundation’s mandate

17. The Executive Director proposes a phased approach to the implementation of the Foundation’s mandate and the enhancement of the Foundation’s capacity to meet the needs of its member States. In the short term UN-Habitat will, between the twenty-first and twenty-third sessions of the Governing Council, harmonize the existing and future elements of the Foundation in line with the new operational guidelines and procedures. It is envisioned that this will involve institutional adjustments to the Human Settlements Financing Division (Subprogramme 4), including the co-location of the Water and Sanitation Trust Fund and the Slum Upgrading Facility, as envisaged by the Medium-term Strategic and Institutional Plan. This would facilitate the cross-fertilization of concepts and practices applied by the two leading operations of the Foundation. External advice will be sought on how to combine the infrastructure emphasis of the Water and Sanitation Trust Fund with the affordable housing and upgrading emphasis of the Slum Upgrading Facility and on how to link the international financial institutions’ loan portfolios to be leveraged by the former with the community savings and domestic

capital to be leveraged by the latter. The revolving fund would be applied during this period as part of the enhanced normative and operational framework of the Medium-term Strategic and Institutional Plan in select cities where both the Water and Sanitation Trust Fund and the Slum Upgrading Facility are operational, offering member States practical instruments for mobilizing resources for comprehensive slum upgrading and prevention.

18. In the medium term, UN-Habitat will embark on an intensive fundraising campaign to capitalize the revolving fund as part of its wider resource mobilization strategy. This will involve consultations not only with major donor countries but also with private foundations, non-traditional donors and international financial institutions. Pending sufficient capitalization, UN-Habitat will implement the revolving fund account on a trial basis in a subset of 25 target countries as anticipated in the Medium-term Strategic and Institutional Plan. Experimentation of this kind would offer UN-Habitat an opportunity to test the structure of the local revolving fund accounts including in countries where the Water and Sanitation Trust Fund or the Slum Upgrading Facility are operational. In this way the secretariat could assess how best local and national partners might utilize a package of technical assistance, start-up capital, equity investments, loans and loan guarantees. Further, UN-Habitat could ascertain how seed capital used to kick-start one initiative might be applied to subsequent initiatives facilitated by the domestic financial service sector for scaling up and multiplying donor funds.

G. Longer-term scope and implications

19. Successful application of the revolving fund account will warrant greater capitalization of the Foundation and will thus spark the need to initiate borrowing operations. In 2010, UN-Habitat will commission an external evaluation to assess the performance of the revolving fund account and make recommendations for the establishment of further lending and the feasibility of introducing borrowing operations. The Governing Council, at its twenty-third session, to be held in 2011, will review the findings of the external evaluation and consider proposals for the future operations of the Foundation. In the longer term, the 2006 financial rules and regulations enable the revolving fund account to conduct "Foundation borrowing operations" in which it borrows from Governments, government agencies and intergovernmental organizations. The financial rules and regulations further state that the limits of the funds to be borrowed shall be set by the Secretary General, from time to time, upon recommendation by the Executive Director and upon authorization by the United Nations Controller. The new rules specify that the liability incurred under these borrowing operations cannot exceed the reserve account of the revolving fund account and will remain under the control of the Office of the Secretary-General through the Controller. They further stipulate that no lender shall have any claim against UN-Habitat or the United Nations or any of their assets, that any liability shall be limited to the resources of the Foundation and that this limitation of liability shall be stipulated in all Foundation borrowing documents. Thus borrowing, if it were to take place, would result in no liability on the part of UN-Habitat or the United Nations.

H. Purpose of the Operational Procedures and Guidelines

20. The special annex for the Foundation to the financial regulations and rules stipulate requirements for accountability, liability and administration, including distribution of income and costs incurred for all windows of the Foundation. They require that operational guidelines and procedures, including terms of reference for the Lending Operations Review Committee and the details of the reimbursable seeding operations described above, be established under the guidance of the Governing Council.

21. The Executive Director therefore requests the Governing Council at its twenty-first session to offer direction on how best to consolidate the revitalization of the Foundation and to chart a course for the medium and long term. UN-Habitat is presently at the stage of demonstration and tools development. It needs to continue this work while preparing the ground to support member States more effectively by leveraging public resources to mobilize savings and domestic capital. Structuring the Foundation appropriately will enable UN-Habitat to play a catalytic role in bridging urban poor organizations and Governments at all levels with domestic and international financial institutions.

22. The draft Operational Procedures and Guidelines, set out in annex I to the present document, will make the field testing work of the Slum Upgrading Facility in its pilot programme more relevant and will serve as a pointer to the future of the Foundation of which it forms an integral part. The country-level revolving fund accounts (and other similar arrangements) have proven to be an essential

part of the Slum Upgrading Facility approach. They enable multiple slum upgrading operations to access technical and financial support that plays an essential role in leveraging domestic capital for both municipalities and their community groups of existing slum-dwellers in the development of bankable projects. The Water and Sanitation Trust Fund needs to develop similar local revolving funds for its field activities in order to capitalize on community savings and to provide incentives for private sector utility companies to invest in projects that extend the water and sanitation services that they provide to people living in slums and informal settlements.

I. Next steps

23. The Governing Council at its twenty-first session should consider three ways to strengthen the Foundation and promote the proposed revolving fund account. The first is to endorse the principle of a phased approach, as proposed by the Executive Director, to implementation of the draft Guidelines and thus implementation of the Foundation's mandate and enhancement of its capacity to meet the needs of member States within the framework of the Medium-term Strategic and Institutional Plan, as described above. The second is to take note of the operational guidelines and procedures to be tabled by the Executive Director in compliance with the Foundation rules promulgated by the Secretary General. The third is to support in principle the approach proposed by the Executive Director for capitalizing the revolving fund account and ensuring continuity with the organization's wider resource mobilization strategy: where feasible, donors to the Slum Upgrading Facility and the Water and Sanitation Trust Fund will be urged to convert part of their existing grants from the special purpose account to the revolving fund account.

III. Summary of the draft operational procedures and guidelines of the Foundation

A. Purpose

24. The draft Guidelines of the Foundation, set out in annex I to the present document, project a direction for the Foundation well into the next two decades. They state clearly what is required in practical operational terms to enable the Foundation to play its catalytic role to assist communities and member States in mobilizing resources for affordable housing and infrastructure services.

B. Mandate

25. The Secretariat has prepared the draft Guidelines to assist the Governing Council to fulfil its responsibility to guide the policy direction of the Foundation and to provide the Executive Director with tools for effective control and management.

26. The Secretary-General, on the basis of relevant United Nations financial regulations and rules adopted by the General Assembly, issued a bulletin (ST/SGB.2006/8) containing the special annex for the Foundation (series 300) to the Financial Regulations and Rules of the United Nations (series 100) of 1 August 2006. Rule 305.3.5 of the special annex envisages that the Governing Council of UN-Habitat will provide policy guidance to the Executive Director for the establishment of operational procedures and guidelines concerning the general principles, detailed systems and procedures of the Foundation, in order to guide the reimbursable seeding operations of the Foundation.

27. The draft Guidelines have been updated to bring them in line with General Assembly resolution 61/206 of 20 December 2006, in which the General Assembly takes note of the special annex and requests the Governing Council at its twenty-first session to address in a comprehensive manner any issues relating to the Foundation, bearing in mind the need to effectively mobilize resources for the Foundation.

C. Transparency

28. The draft Guidelines are intentionally elaborate and, unlike the existing general procedures and guidelines governing the operations of the Foundation, they cover the full range of its mandate. They anticipate activities of the Foundation that will be undertaken over the next 10–15 years. Depth of this kind is provided in the interest of transparency: to outline clearly what is desirable in the long-term and to prioritize what is required in the short-term to initiate procedures that will enable the Foundation to achieve long-run goals.

D. Impact

29. The draft Guidelines are in line with and are a prerequisite for achieving the principle objectives of the draft Medium-term Strategic and Institutional Plan for 2008–2013. The operational procedures outlined in the draft Guidelines will enable the secretariat to enhance UN-Habitat’s normative framework as envisaged in the Medium-term Strategic and Institutional Plan and to leverage international and domestic investment, enabling UN-Habitat’s interventions to be scaled up.

E. Targeted lending

30. The original financial regulations of the Foundation (1977) made provision for lending and borrowing. The special annex (2006) provides, among other things, rules not included in the 1978 version of the financial rules (ST/SGB/UNHHSF/Financial Rules 3 (1978)) necessary for the Foundation to engage in “reimbursable seeding operations.” While the grant of authority to engage in lending operations is therefore clear, the draft Guidelines nevertheless chart a cautious approach to the implementation of the lending and borrowing mandate of the Foundation, deliberately confining lending to modest seed capital operations, initially on a pilot basis. The purpose of seed capital operations is to leverage investment. This is in line with the objective of the Foundation to work with member States and Habitat partners to enable them to mobilize larger public and private investment for their human settlements initiatives.

F. Revolving funds at the country level

31. The Foundation currently lacks operational procedures that enable it to use limited capital effectively. At present it can only make grants to local partners at the country level. Grants are one-time disbursements that cannot be paid back or used again for other projects. The draft Guidelines set out procedures that enable the Foundation to move beyond grants to revolving loan funds. The latter allow local actors in a given country to use seed capital for one project, repay these monies, and then make the same seed capital available for other projects. Domestic financial institutions will assume the fiduciary responsibilities for borrowing seed capital from the Foundation, ensuring that it is repaid and then made available for other projects.

G. Revolving fund account of the Foundation at the global level

32. Importantly, the draft Guidelines also make provision for the Foundation to retrieve seed capital furnished to domestic financial institutions when the capital is no longer required. This will allow the Foundation to deploy seed capital where it is most needed among numerous projects in multiple countries at the same time. For this reason the draft Guidelines propose the establishment of a revolving fund account of the Foundation. This will be an account distinct from the general purpose and special purpose funds and will be dedicated to supporting the country-level revolving fund accounts.

H. Structure and capacity of UN-Habitat

33. The Secretariat recognizes that, guided by the draft Guidelines, it will have to build upon UN-Habitat’s existing capacities and structures to develop systems that work. The Foundation will be anchored institutionally within the Human Settlements Financing Division and will draw upon the innovations of its Water and Sanitation Trust Fund and the Slum Upgrading Facility recently co-located in the Division. The Office of the Executive Director will provide strategic policy and monitoring and evaluation support while the Programme Support Division will offer administrative operational support, interfacing with the United Nations Office at Nairobi (UNON). The secretariat will augment these functions with additional capacities relevant to the Foundation in line with the Medium-Term Strategic and Institutional Plan and as outlined in the draft Guidelines.

I. Cooperation with international financial institutions

34. Effective cooperation with financial actors has been constrained by the absence of requisite operational procedures. The draft Guidelines provide means by which international, regional and domestic financial institutions can work with UN-Habitat and in so doing direct investment to urban poor organizations and local authorities without incurring large transaction costs. For example, international financial institutions can undertake joint financing with UN-Habitat. This involves working closely with local actors who have secured seed capital from the Foundation, monitoring the

precedent set by these local actors, and augmenting seed capital with the larger flows of investment of the international and regional financial institutions. By partnering in this way, financial institutions will be well placed to strengthen the seed capital operations of the Foundation and through their representation on the proposed Lending Operations Review Committee advise the secretariat on how best to implement the draft Guidelines.

J. Phased approach

35. A phased approach to implementation of the draft guidelines is proposed to enable the secretariat to consolidate its existing capacities and structure and gradually introduce new systems and operational procedures. Between the twenty-first and twenty-second sessions of the Governing Council (2007 and 2009), UN-Habitat will initiate seed capital operations of the revolving fund account on a trial basis in selected countries, drawing upon the innovations and partner networks of the Water and Sanitation Trust Fund and the Slum Upgrading Facility, while introducing systems outlined in the draft Guidelines. Between the twenty-second and twenty-third sessions of the Governing Council (2009 and 2011), UN-Habitat will review progress made on the piloting of seed capital operations in cities where the Water and Sanitation Trust Fund and the Slum Upgrading Facility are operational and extend the revolving fund account operations to other cities in a subset of the 25 countries as envisaged in the Medium-Term Strategic and Institutional Plan. In addition, this two-year period will offer an opportunity for the organization to enhance systems development, drawing on lessons learned and on constructive feedback from local, regional and international financial institutions. In the wake of the twenty-third session, the secretariat will initiate suitable procedures, drawing upon the policy guidance of the Governing Council, to develop further lending and borrowing operations of the Foundation.

K. Consultation

36. In the light of both the necessity and complexity of establishing the lending, and eventually borrowing, functions of the Foundation, the secretariat envisages a continuing consultative approach with the Governing Council during its forthcoming and future sessions. It is anticipated that the Governing Council at its twenty-first session will endorse, in principle, the phased approach to enhancing the capacity of the Foundation within the framework of the Medium-Term Strategic and Institutional Plan and take note of the draft Guidelines, in accordance with the cautious approach as outlined. The Governing Council at its twenty-second session, to be held in 2009, will review the progress made on the Foundation, including the application of the revolving fund account on a trial basis. In 2010, UN-Habitat will commission an external evaluation to assess the application of the revolving fund account and make recommendations on the suitability of further lending and borrowing operations. At its twenty-third session, to be held in 2011, the Governing Council will consider the findings of an external evaluation as the basis for determining further implementation of lending activities and the introduction of borrowing operations.

Annex I

UN-Habitat

United Nations Habitat and Human Settlements Foundation

Draft Operational Procedures and Guidelines

Note: this version has been aligned with the promulgated financial rules, which have been in force since 1 August 2006

**For policy guidance from the Governing Council of the
United Nations Human Settlements Programme**

Table of contents

| | |
|--|----|
| Article 1 | 15 |
| Introduction | 15 |
| Article 2 | 16 |
| Definitions | 16 |
| Article 3 | 17 |
| Definition of human settlements and purpose and primary objectives of the Foundation | 17 |
| A. Definition | 17 |
| B. Purpose | 17 |
| C. Primary objective of the Foundation | 17 |
| Article 4 | 18 |
| Organizational structure of the Foundation | 18 |
| A. General Assembly | 18 |
| B. Governing Council of the United Nations Human Settlements Programme | 19 |
| C. Executive Director and Administrator | 20 |
| D. Advisory board | 22 |
| E. Lending Operations Review Committee | 22 |
| F. Deputy Administrator | 23 |
| G. Staff | 23 |
| Article 5 | 25 |
| Resources of the Foundation | 25 |
| A. Voluntary contributions, donations and gifts | 25 |
| B. Other sources of income | 25 |
| C. Borrowing | 25 |
| D. Resource mobilization | 26 |
| Article 6 | 26 |
| Resource allocation | 26 |
| Article 7 | 28 |
| Lending operations | 28 |
| A. Eligibility criteria | 28 |
| B. Lending from voluntary contributions | 28 |
| C. Lending from external borrowing | 29 |
| D. Procedures for reimbursable seeding operations | 30 |
| E. Equity financing | 31 |
| Article 8 | 32 |
| Borrowing operations | 32 |
| A. Foundation authority for external borrowing | 32 |
| B. Liability for borrowing incurred by the Foundation | 33 |
| Article 9 | 34 |
| Programme activities | 34 |
| Article 10 | 34 |
| Projects | 34 |
| A. General principles | 34 |
| B. Identification | 35 |
| C. Preparation | 36 |
| D. Appraisal | 36 |
| E. Negotiation and approval | 38 |
| F. Execution and supervision | 38 |
| G. Ex-post evaluation | 39 |
| Article 11 | 39 |
| Administration of the Foundation | 39 |
| A. General policies | 39 |
| B. Foundation staff | 39 |
| C. Foundation accounts | 39 |
| D. Reports | 40 |
| E. Cooperation with other agencies | 40 |

The United Nations Habitat and Human Settlements Foundation Operational Procedures and Guidelines

Article 1 Introduction

- 1.1 The present document presents the Operational Procedures and Guidelines of the United Nations Habitat and Human Settlements Foundation and includes provisions relating to the lending and borrowing operations of the Foundation. They build on the existing General Procedures Governing the Operations of the United Nations Habitat and Human Settlements Foundation as adopted by the Governing Council of the United Nations Environment Programme in its decision 72(IV) 1976 and amended by Governing Council decision 94(V) 1977.
- 1.2 The Foundation was born out of recommendation 17 of the Action Plan for the Human Environment of the United Nations Conference on the Human Environment held in Stockholm in June 1972 (*Report of the United Nations Conference on the Human Environment* (United Nations publication, Sales No. E.73.II.A.14 and corrigendum), chap. II. Sect. B). That recommendation states:
- “It is recommended that Governments and the Secretary-General take immediate steps towards the establishment of an international fund or a financial institution whose primary operative objectives will be to assist in strengthening national programmes relating to human settlements through the provision of seed capital and the extension of necessary technical assistance to permit an effective mobilization of domestic resources for housing and the environmental improvement of human settlements”.
- The recommendation, which was endorsed by the United Nations General Assembly in 1972, was subsequently developed, upon request by the General Assembly, by the United Nations Environment Programme (UNEP) following its own creation by the General Assembly at the end of 1972, into a proposal for the establishment of the United Nations Habitat and Human Settlements Foundation. That proposal, based on recommendation 17, was adopted by the General Assembly in its resolution 3327 (XXIX), and the Foundation was established with effect from 1 January 1975.
- 1.3 In December 1977, the General Assembly adopted resolution 32/162 establishing the United Nations Centre for Human Settlement (UNCHS) (Habitat), comprising the posts and budgetary resources of the Centre for Housing, Building and Planning of the Department of Economic and Social Affairs and the United Nations Habitat and Human Settlements Foundation. The responsibilities and functions of the Governing Council of UNEP and its Executive Director with regard to the Foundation were entrusted to the Commission on Human Settlements and its Executive Director. In the same month, by decision 32/451, the General Assembly 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. In resolution 56/206 of 21 December 2001, the General Assembly confirmed, among other things, the original mandate of the Foundation and the responsibilities and functions of the Governing Council and the Executive Director as envisaged in General Assembly resolutions 3327 (XXIX) and 32/162.
- 1.4 The present operational procedures and guidelines follow the structure of and elaborate upon the existing General Procedures and include new articles covering the lending and borrowing operations of the Foundation, taking into account the financial rules presented 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)⁵, which entered into force with effect from 1 August 2006.

5 T/SGB/UNHHSF Financial Rules/3 (2006).

Article 2

Definitions

- 2.1 For the purpose of the present Operational Procedures and Guidelines, the following definitions⁶ shall apply:
- 2.1.1 “Foundation” shall mean the United Nations Habitat and Human Settlements Foundation (UNHHSF);
- 2.1.2 “Governing Council” shall mean the Governing Council of the United Nations Human Settlements Programme (UN-Habitat);
- 2.1.3 “UN-Habitat” shall mean the United Nations Human Settlements Programme;
- 2.1.4 “Government” shall mean the Government of any State that is eligible for membership in the Governing Council of UN-Habitat;
- 2.1.5 “Executive Director” shall mean the Executive Director of the United Nations Human Settlements Programme (UN-Habitat);
- 2.1.6 “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) by its decision 72 (IV) 1976, and amended by its decision 94 (V) 1977, shall mean the Administrator of the Foundation;
- 2.1.7 “Programme budget” shall comprise the “programme of activities” and “Programme support costs” as defined below;
- 2.1.8 “Project” shall mean an activity separately identified within the programme of activities to be carried out for a specific purpose and for a definite period of time;
- 2.1.9 “Programme of activities” shall mean a plan of activities, including areas for projects in which the Foundation is to be involved, whether financed on a grant or reimbursable basis or financed partially or wholly by the Foundation;
- 2.1.10 “Programme support costs” shall mean the costs of administration and management of the programme of activities (including programme development and evaluation) and technical and administrative support of projects;
- 2.1.11 “Loan Fund”, also to be popularly known as the Revolving Fund Account, shall mean the account to which resources are deposited specifically for the reimbursable seeding capital operations of the Foundation, pursuant to UNHHSF regulation 1.1, from:
- (a) The Foundation’s borrowing operations;
 - (b) Voluntary contributions, other than voluntary contributions made to the General Fund, made by Governments, governmental agencies and intergovernmental organizations and other public or private entities;
- 2.1.12 “Reimbursable seeding operations” shall mean Foundation lending operations particularly to kick-start revolving fund systems at the local level through the provision, on a reimbursable basis, to eligible public and private institutions, with special emphasis on developing countries and countries with economies in transition, of seed capital, loan guarantees, including housing loan insurance, and equity investments to support the mobilization and effective utilization of domestic financial resources for human settlements by local lending financial institutions, particularly housing finance and community-based savings and loan organizations and other institutions engaged in low-cost housing and slum upgrading programmes;

⁶ These are the same definitions used in the special annex for UNHHS 300 series – SG/SGB/UNHHSF Financial Rules/3 (2006).

2.1.13 “Loan agreement” shall mean a loan agreement between the Foundation and an eligible recipient of funds through the Foundation’s reimbursable seeding operations for revolving fund activities;

2.1.14 “Foundation borrowing operations” shall mean, pursuant to UNHHSF regulation 1.2, borrowing from Governments and governmental agencies and intergovernmental organizations by the Foundation for its Loan Fund as defined above.

Article 3

Definition of human settlements and purpose and primary objectives of the Foundation

A. Definition

3.1 For the purposes of the Foundation, “human settlements” is defined as, and understood to comprise, shelter and related facilities and services that affect habitability and efficiency from the viewpoints of the quality of life and economic and social opportunity. Thus, human settlements as a field of policy and action must be considered:

3.1.1 In the context of economic and social development;

3.1.2 In relation to social equity, income distribution and mass poverty;

3.1.3 In relation to urbanization and its related challenges in today’s, and more so, tomorrow’s world;

3.1.4 In the context of the human environment. Man’s concern with quality of life must necessarily include such a major factor as his or her shelter and the services and environmental aspects of the conditions in which he or she lives and works in pursuit of sustainable development.

B. Purpose

3.2 The basic objectives of the operations of the Foundation are to contribute to assistance for developing countries for the improvement of their living standards and quality of life and enhancement of opportunities for social and economic advancement. With these general objectives the Foundation shall serve the following purposes:

3.2.1 To promote and assist in all appropriate ways in fostering the mobilization of resources for the human settlements sector and bringing about increased effectiveness in their utilization;

3.2.2 To facilitate and render assistance aimed at improvement in policies and operational effectiveness of institutions in the sector so that such institutions achieve durable strength and self-sustaining viability;

3.2.3 To collaborate with other international, regional and national organizations interested in the sector and to complement, support and encourage their further work and promote international cooperation in this field;

3.2.4 To assist the international community to foster more systematic and coherent efforts to deal with human settlements issues, offering financial products and lending arrangements commensurate with the needs of developing countries and countries with economies in transition, particularly the needs of lower income groups.

C. Primary objective of the Foundation

3.3 The primary objective of the Foundation is to assist in strengthening national human settlements institutions, policies, programmes and related activities in urban and rural areas, particularly in developing countries, through:

3.3.1 The provision of seed capital and the technical and financial assistance to necessary permit the effective mobilization and leveraging 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 regard to the urgency and magnitude of the needs of lower income groups and slum-dwellers (Millennium Development Goal 7, targets 10 and 11);

3.3.2 The stimulation of innovative approaches to pre-investment, pre-project and financing strategies for human settlements activities while drawing on the accumulated practical experience of both the public and private sectors for the mobilization of financial resources for human settlements;

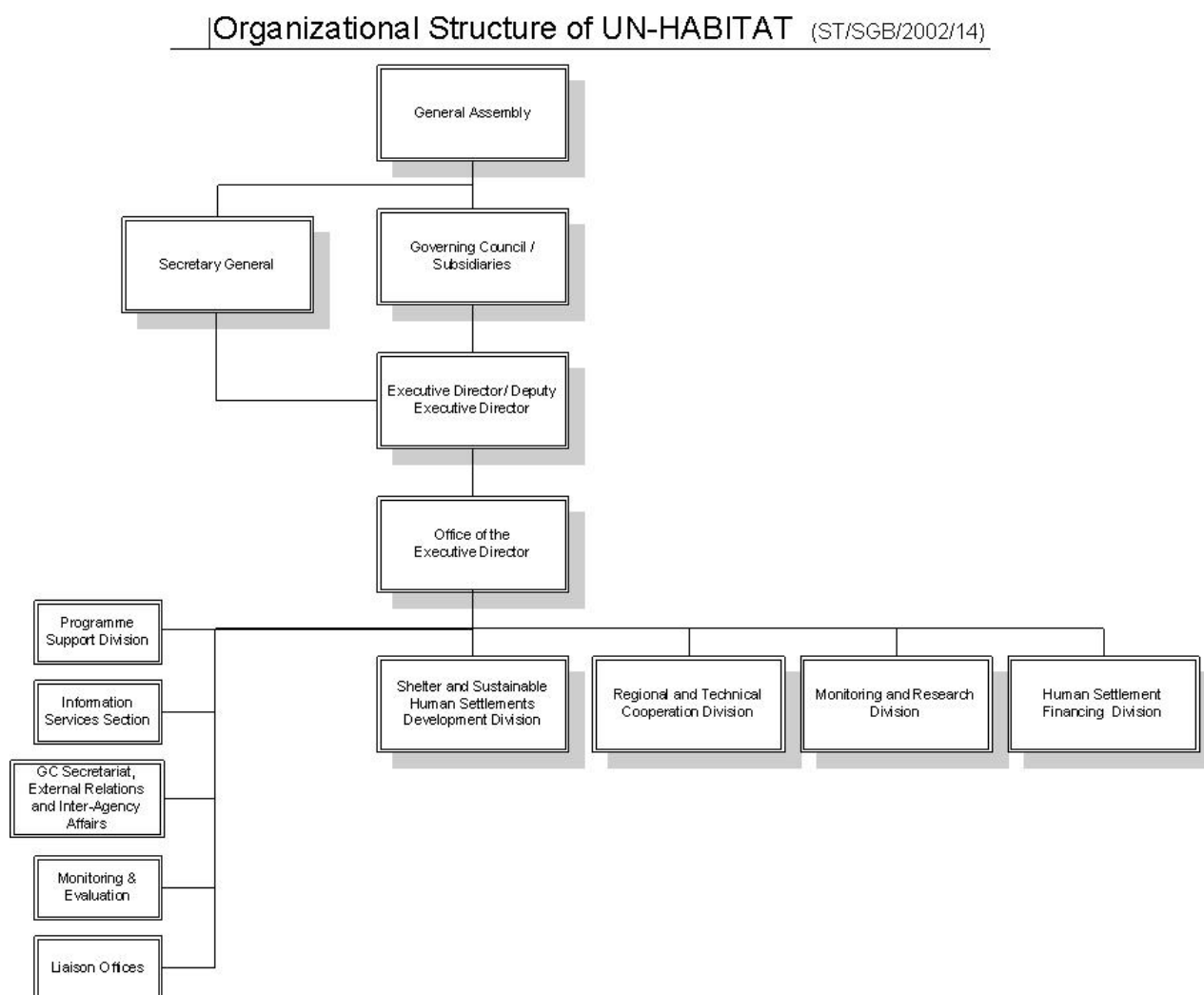
3.3.3 The provision of technical assistance services in human settlements and human habitat management, including training facilities;

3.3.4 The promotion of transfer and adaptation of appropriate scientific and technical knowledge on human settlements projects and programmes.

Article 4 Organizational structure of the Foundation

A. General Assembly

4.1 The General Assembly of the United Nations has ultimate authority over the Foundation. It has designated the Governing Council of UN-Habitat as the governing body of the Foundation, which will report to it through the Economic and Social Council. Chart 1 below, taken from document ST/SGB/2002/14, sets out the organizational structure of UN-Habitat.



B. Governing Council of the United Nations Human Settlements Programme

- 4.2 Under the authority and guidance of the Governing Council, the Executive Director is responsible for the management and administration of the Foundation, with due regard to the terms of reference of the Foundation as stipulated in General Assembly resolution 3327 (XXIX) and reconfirmed 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:
- 4.3.1 To promote greater cooperation with member States, international organizations and partners in order to increase the availability of resources to all developing countries, especially those in Africa, and the least developed countries, and to promote the effective contribution of the private sector and local authorities and their associations;
- 4.3.2 To promote adequate shelter 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;
- 4.3.3 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:
- 4.4.1 Consider and approve the proposed programme budget of the Foundation (rule 302.2);
- 4.4.2 Consider and approve plans presented by the Executive Director regarding the administration of the Foundation budget and the utilization of its funds, including for lending 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);
- 4.4.3 From time to time, determine, upon recommendation by the Executive Director, the level of the General Financial Reserve and its composition so as to ensure the financial liquidity of the Foundation General Fund. Assign the allocation of resources to the Loan Fund Reserve to be established pursuant to the Operational Procedures and Guidelines from:
- (a) The General Fund;
 - (b) The grant component in the Loan Fund; and
 - (c) Income from investment of Loan Fund resources. (rule 304.3.2).
- 4.4.4 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);
- 4.4.5 Pursuant to rule 305.3.5, provide policy guidance to the Executive Director for the establishment of operational procedures and guidelines concerning the general principles, detailed systems and procedures of the Foundation, in order to guide the reimbursable seeding operations of the Foundation with regard to the following:
- (a) The terms and conditions under which the Foundation may borrow with due regard to rule 303.9;

- (b) Limits on the total value of each of the Foundation's loans, loan guarantees and equity investments;
- (c) Limits on the size of financial contributions to each project of the Foundation in the form of grants, loans, loan guarantees and equity investments;
- (d) The allocation of Loan Fund resources among types of financial products, i.e., the percentage to be assigned for seed capital, loan guarantees and equity investment;
- (e) The standards to be met by applicants to the Foundation reimbursable seeding operation funds;
- (f) The terms and conditions by which grants, loans, loan guarantees and equity investments may be made by the Foundation, including interest rates and other charges;
- (g) Policies for the sale of securities provided by the borrowers to the Foundation to private investors in order to revolve the Foundation's funds with due regard to rule 303.9.

4.4.6 On the request of the Executive Director, provide guidance regarding the terms of reference of the Lending Operations Review Committee and the criteria for the appointment of its members. (rule 305.3.3.b).

4.4.7 Consider and approve Foundation accounts and records presented by the Executive Director. (rule 304.3.1);

4.4.8 Consider and approve supplementary programme budget proposals in respect of the current financial period, submitted by the Executive Director to the Governing Council (rule 302.5);

4.4.9 Consider and approve the statements of programme budget implications presented by the Executive Director under rule 28 of the rules of procedure of the Governing Council (rule 302.6);

4.4.10 Consider and approve reports presented by the Executive Director concerning contributions other than from Governments to the General Fund. (rule 303.4).

4.5 Under its 2005 rules of procedure (rules 22 and 69), the Governing Council may delegate its responsibilities and authority with respect to the Foundation in part or in whole to a subsidiary body of the Council established by it specifically for that purpose.

C. Executive Director and Administrator⁷

4.6 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, with due regard to the terms of reference of the Foundation as stipulated in General Assembly resolution 3327 (XXIX).

4.7 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 a significant improvement in the lives of at least 100 million slum-dwellers by 2020 and in recognition of the urgent need to provide increased resources for affordable housing and housing-related infrastructure and services, prioritizing slum prevention and slum upgrading.⁸

4.8 The Secretary-General shall act as custodian of the Foundation funds⁹ and shall designate the Foundation's bank accounts and the signatories of those accounts. The Secretary-General may delegate to the Executive Director such authority with respect to the custody of the Foundation Loan Fund (Revolving Fund Account) and

7 UNEP/GC/36 Plan and Programme of Operation for the United Nations Habitat and Human Settlement Foundation, B.4.

8 A/RES/60/1, paragraph 56(m).

9 Pursuant to rule 304.6.

its reserve as will facilitate the efficient and effective management of the Foundation funds. The Executive Director may accept such delegation in writing.

- 4.9 The Executive Director shall, in accordance with financial rule 304.12, consult with the Under-Secretary-General for Management on how funds of the Loan Fund and its reserve that are not required for immediate disbursement may be best invested. The provisions of rules 104.13 and 104.14 shall apply to such funds.
- 4.10 The Executive Director's responsibilities also include:
- 4.10.1 Administering the Foundation and providing technical and financial services related to the Foundation, including the establishment of programme guidelines and directives. He or she shall be the legal representative of the Foundation;
- 4.10.2 Seeking the cooperation and support of financial institutions in developed and developing countries in fulfilment of the objectives of the Foundation;¹⁰
- 4.10.3 Preparing a proposed programme budget on a gross-basis based on the anticipated voluntary contributions and extrabudgetary funds covering the financial period for both income and expenditures. The budget shall cover all anticipated programme activities, including lending or revolving fund operations on a reimbursable basis of the Foundation pursuant to UNHHSF Regulation 1.1, programme support costs of the Foundation and provision for contingencies. The format will be consistent with relevant United Nations budgetary regulations, rules, policies and practices;¹¹
- 4.10.4 Performing procurement functions for the Foundation;
- 4.10.5 Undertaking fund-raising appeals and initiatives aimed at substantially increasing Foundation resources and seeking, following the example of the Global Environment Facility, to obtain from Governments who pledge to contribute to the resources of the Foundation an instrument of commitment either qualified or unqualified. Such firm pledges will enable the Executive Director to plan the lending or revolving fund programme and provide a basis for estimates of the level and timing of receipt of funds;
- 4.10.6 Maintaining, in compliance with financial rules 306.2 and 304.3.1, the records and accounts of the Foundation that are necessary to enable the Executive Director to report to the Governing Council, subject to such instructions as may be prescribed by the Secretary-General;
- 4.10.7 Preparing and certifying as correct the financial accounts and statements of the Foundation and submitting them to the United Nations Board of Auditors at the times specified in rule 106.10 (a);¹²
- 4.10.8 Incurring, pursuant to UNHHSF Financial Regulation 1.2 and in accordance with financial rule 303.9, borrowing for reimbursable seeding operations from Governments and governmental agencies and intergovernmental organizations for the reimbursable seeding operations of the Foundation, within the limits set by the Secretary-General from time to time upon recommendation by the Executive Director and upon authorization by the Controller and with due regard to the prospective resource requirements set by the United Nations General Assembly and the performance of the Foundation in managing the Loan Fund operations from voluntary resources. Funds obtained from borrowing shall be credited to the Loan Fund of the Foundation established by the Executive Director under rule 304.3.2(d);
- 4.10.9 Incurring external borrowing for the Foundation pursuant to rules 303.9 and 303.10 and ensuring that the Foundation maintains adequate resources in the Foundation Loan Fund reserve established under rule 304.3.2(e) to secure the liabilities arising from such borrowing.
- 4.11 The Executive Director is also responsible for the administration of the Foundation and is accountable to the Governing Council for all phases and aspects of the operations of the financial resources of the Foundation. While retaining this ultimate responsibility, the Executive Director may delegate primary responsibility for operation and management of the Foundation to the Deputy Administrator.¹³

10 ST/SGB/2002/14, paragraph 3.1(f).

11 Rule 302.1.

12 Rule 306.10.

13 UNEP/GC/36, paragraph 12.

D. Advisory board

- 4.12 The Executive Director shall appoint, pursuant to Section E of Article III of decisions 72(IV) and 94(V) on the Organs of the Foundation of the Governing Council of UNEP, an Advisory Board of about fifteen members who will serve in their personal capacity and without remuneration and who will be chosen on a broad geographical basis. The Advisory Board will be chaired by the Executive Director. Members of the Advisory Board will be appointed for a period of two years and may be reappointed. The Board will advise the Executive Director, who will also serve as Administrator, on the operations of the Foundation. The Board will normally meet once a year. Cost of travel in the appropriate class and per diem at the appropriate level shall be decided upon by the Executive Director in consultation with the Under-Secretary-General of the Department of Management.¹⁴

E. Lending Operations Review Committee

- 4.13 Establishment and composition of the Committee:

4.13.1 A standing committee shall be established by the Executive Director comprising 12 to 15 members appointed by the Executive Director to advise him or her on the administration and management of the Foundation reimbursable seeding operations to enhance the effectiveness and efficiency of the Foundation. The United Nations Controller will be an ex-officio member of the Committee. The Committee shall be called the Lending Operations Review Committee and shall meet twice a year under the Chairmanship of the Executive Director;

4.13.2 Members shall be appointed for a term of two years and may be reappointed for a further two terms. Members shall serve in their personal capacity;

4.13.3 Members of the Committee shall be chosen with due regard to regional representation, areas of professional expertise and the level of contributions by member States to the Foundation. Members of the Committee shall constitute a team of professionals knowledgeable in lending operations, financial systems, markets and management, economics, banking and micro-credit;

4.13.4 Major multilateral international and regional financial institutions may be invited to participate in the meetings of the Committee.

- 4.14 Objective and activities of the Committee:

4.14.1 The objective of the Committee is to provide advice to the Executive Director on the administration, management and development of the Foundation reimbursable seeding operations, primarily its lending operations;

4.14.2 The activities of the Committee shall include:

(a) Assisting in the appraisal of applications by eligible public and private institutions as referred to in financial rule 301.3 (I), including the appraisal of allocations of resources between the three funding categories of reimbursable seeding operations as defined in rule 301.3(I);

(b) Reviewing all projects of the Foundation that include a reimbursable seeding component and provide recommendations regarding the terms and conditions of the operation, risk level and repayment capacity of the borrower;

(c) Instituting a system of supervision to ensure that Foundation reimbursable seeding operation funds are used for the purposes for which they are approved and ensuring adherence by the borrower to the conditions stipulated in the revolving or loan agreement;

(d) Assessing and evaluating periodically the viability and status of the Foundation's aggregate outstanding loans and guarantees to ensure that the Loan Fund reserve can always meet the liabilities of the Foundation from its own resources;

14 From current General Procedures Governing the Operations of the Foundation.

- (e) Advising on any other relevant issues that the Executive Director may bring to the attention of the Committee.

F. Deputy Administrator

- 4.15 Building on the existing capabilities and structure of UN-Habitat, the Foundation is managed, as stated in article 4.11 above, by the Deputy Executive Director, in his or her capacity as Deputy Administrator, who shall be assisted by the Director of the Human Settlements Financing Division.

G. Staff

- 4.16 The staff of the Foundation shall be appointed by the Executive Director for service specifically with the Foundation. The appointment and promotion of the staff of the Foundation will be subject, unless the General Assembly decides otherwise, to the provisions of the Staff Regulations and Staff Rules of the United Nations. Staff paid from the Foundation's resources will be recruited on as wide a geographic basis as possible.¹⁵
- 4.17 In 2007, a year of adaptation for UN-Habitat to internalize the implications of the entry into force of 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), the Executive Director will build on the existing structure and staff of UN-Habitat (see chart 1 above). In Phase 1 of the Foundation's reimbursable seeding operations during the period 2008–2009, the staffing composition of the Foundation will be designed to ensure an adequate level of highly qualified staff in the following areas:
- 4.17.1 Policy and strategic planning and external relations (this function will be discharged by the Office of the Executive Director);
- 4.17.2 Financial and technical services (this function will be discharged by subprogramme 4, which has been renamed the Human Settlements Financing Division);
- 4.17.3 Monitoring and evaluation (these functions will be discharged by the Office of the Executive Director - see chart 1, above);
- 4.17.4 Administration and management (these functions will be discharged by the Programme Support Division in the Office of the Executive Director);
- 4.17.5 Auditing and control (these functions will be discharged by the Programme Support Division in the Office of the Executive Director).
- 4.18 The policy and strategic planning and external relations unit is attached to the Office of the Executive Director. The responsibilities of this unit will include:
- 4.18.1 Policy planning in the Foundation to give depth over time in programming so that the Foundation can adopt strategic approaches in its overall operations as well as in its programmes, in particular countries and regions, with special emphasis on:
- (a) Assisting the Human Settlements Financing Division in sustaining interest and continuity in particular programmes in developing countries;
- (b) Cooperating with other financial institutions. The Foundation will maintain close working contacts with other international and regional bodies within and outside the United Nations system, particularly financial institutions, as well as with bilateral and other national, private and public organizations whose interests and operations relate to human settlements financing activities;
- 4.18.2 Serving as secretariat of the Advisory Board;
- 4.18.3 The fund-raising strategy and follow-up function;

- 4.18.4 Handling the external relations of the Foundation.
- 4.19 The Human Settlements Financing Division will be headed by the Director of the Division who will report to the Deputy Administrator. He or she will be assisted by a Deputy Director and an adequate number of Professional and General Service personnel. The responsibilities of the Division will include:
- 4.19.1 Supporting pre-investment activities and the preparation of Foundation projects and programmes;
- 4.19.2 Appraising the Foundation's projects and programmes;
- 4.19.3 Participating in the selection of expertise required for its field operations;
- 4.19.4 Providing assistance to developing countries relating to financial policies and institutions in human settlements development programmes;
- 4.19.5 Examining and reviewing the proposals of developing countries for seed capital inputs as well as questions relating to housing finance institutions and financial strategies for mobilizing and utilizing resources for the human settlements sector;
- 4.19.6 Undertaking the management of any financial resources whose utilization is compatible with the purposes and functions of the Foundation and the United Nations. Such resources shall constitute trust funds that are distinct from other accounts of the Foundation. Technical management of such trust funds will be under the responsibility of the Director of the Human Settlements Financing Division;
- 4.19.7 Providing advisory services and technical assistance to governments in order to achieve the goals of the Foundation and to assist developing countries in the development and preparation of programmes – with special emphasis on financial resource mobilization and financial institution aspects – relating to the investment financing phases of human settlements programmes. In this connection the Division will work closely with the policy planning and external relations unit of the foundation;
- 4.19.8 Providing and organizing technical services in human settlements financing strategies and policies, including training facilities and improvement of relevant institutional arrangements;
- 4.19.9 Providing technical assistance to developing countries in the preparation and implementation of projects, thereby facilitating and encouraging external financing of human settlements programmes in those countries;
- 4.19.10 Serving as secretariat of the Lending Operations Review Committee to be established by the Executive Director.
- 4.20 The functions of the Administration and Management Unit will be discharged by the Programme Support Division and will include:
- 4.20.1 Dealing with the normal day-to-day administrative work of the Foundation;
- 4.20.2 Undertaking financial controller functions for the Foundation's Loan Fund and Loan Fund Reserve and reimbursable seeding activities;
- 4.20.3 Managing the technical assistance programmes for which the Human Settlements Financing Division will be responsible on the substantive side;
- 4.20.4 Providing legal counsel concerning the lending and borrowing operations of the Foundation.
- 4.21 Monitoring and evaluation activities covering the projects and programmes of the Foundation will be undertaken during and after project and programme execution. The responsibilities of the monitoring and evaluation unit will include:
- 4.21.1 Establishing the monitoring and evaluation system to be used for the activities of the Foundation;
- 4.21.2 Reviewing project documents during project preparation to ensure that implementation and impact indicators are adequately defined;

- 4.21.3 Providing oversight of project-level monitoring and evaluation systems and reviewing the implementation and impact indicators that are contained in project progress reports;
- 4.21.4 Coordinating ex post project evaluations following project completion;
- 4.21.5 Reporting on best practices identified during project implementation;
- 4.21.6 Liaising with the Policy and Strategic Planning and External Relations Unit to provide solid inputs as required for decision-making within the strategic and operational planning process.
- 4.22 Auditing and control¹⁶ functions will be discharged in the initial stages by the Programme Support Division in the Office of the Executive Director in accordance with the relevant financial regulations, rules, administrative instructions and guidelines.

Article 5

Resources of the Foundation

A. Voluntary contributions, donations and gifts

- 5.1 An important source of funds for the Foundation will be voluntary contributions, donations and gifts from member States. In addition, the financial support of private organizations may be sought.¹⁷

B. Other sources of income

- 5.2 In addition to the voluntary contributions it receives, the Foundation will have access to the following sources of income during a given financial period:¹⁸
- 5.2.1 Funds for overhead costs from projects executed by the Foundation on behalf of other organizations, including United Nations bodies;
- 5.2.2 Interest and service charges earned in connection with reimbursable seeding operations;
- 5.2.3 Commitment charges in connection with loans made for reimbursable seeding operations in cases where loan principal is set aside for recipients and not drawn down;
- 5.2.4 Interest earned on investments pursuant to rule 304.12;
- 5.2.1 Repayments of loans that will replenish the Loan Fund (Revolving Fund Account).

C. Borrowing

- 5.3 On the authority delegated to the Executive Director by the Secretary-General, he or she may incur, pursuant to UNHHSF Financial Regulation 1.1 and in accordance with financial rule 303.9, borrowing from Governments and governmental agencies and intergovernmental organizations for the reimbursable seeding operations of the Foundation, within the limits set by the Secretary-General from time to time upon recommendation by the Executive Director and with due regard to the prospective resource requirements set by the United Nations General Assembly and the performance of the Foundation in managing the Loan Fund (Revolving Fund Account) operations from voluntary resources. Funds obtained from borrowing will be credited to the Loan Fund of the Foundation that will be established by the Executive Director under Rule 304.3.2(d).

16 Text agreed upon by the United Nations Controller and the Under-Secretary-General of the Office of Internal Oversight Services shall be incorporated.

17 A/C.5/32/24, paragraph 31.

18 A/C.5.32/24, paragraph 39.

D. Resource mobilization

- 5.4 Mobilizing funds from private investors and lenders for projects in developing countries, particularly in the private sector, is one of the Foundation's essential functions. The Foundation will actively seek partners for joint ventures and raise additional financing by encouraging other institutions to invest in Foundation projects.
- 5.5 To achieve this goal the Foundation will:
- 5.5.1 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;
- 5.5.2 Strengthen partnership with and between financial institutions, investors and clients in order to better match financial services to clients' needs;
- 5.5.3 Pioneer transactions that are the first of their kind to a particular municipal infrastructure, investment and market, particularly with respect to mortgage finance for low-income groups (innovative approach).

Article 6 Resource allocation

- 6.1 The Governing Council will establish guidelines and priorities, taking into account the recommendations of the Executive Director, regarding the allocation of resources received from Governments and other sources as voluntary contributions to be used for seed capital operations, technical assistance activities and programme support costs.
- 6.2 Among the main factors that determines the allocation of Foundation resources among eligible public and private institutions are the needs and performance of each country in implementing policies that promote economic growth, poverty reduction and national human settlements development. Another is the financial track-record of private institutions.
- 6.3 With respect to the allocation of the financial resources available to the Foundation, the following allocation guidelines and criteria will be applied:¹⁹
- 6.3.1 **Need:** Priority will be given to those countries where there is a clear indication of greater need for improvement of habitat and human settlements conditions;
- 6.3.2 **Resources:** Priority will be given to developing countries, particularly those where there is a clear mismatch between needs and resources. The Foundation's resources will be used to play a catalytic and pioneering role in pro-poor human settlements financing policy development and institution building;
- 6.3.3 **Policy framework:** The relevance of proposals to sound overall habitat and human settlements policy and the attitude and resolve of recipient countries to deal effectively with the improvement of housing and related facilities for lower-income groups in urban and rural areas will be crucial. The Foundation will take fully into account the characteristics of the economic and social structure and the development process of a country. In so doing it will also seek to have its programmes fit into the human settlements policy frameworks of the recipient countries to ensure their effectiveness in attaining the desired goals and objectives, including gender equity;
- 6.3.4 **Demonstration value of programmes and projects:** Programmes and projects will be prioritized based on their potential demonstration value, capacity to leverage public and private resources and replicability. Programmes and projects having demonstration value will enable the Foundation to develop typologies of certain problems in the field of human settlements from which more or less standardized elements of solutions might be drawn and applied with appropriate modifications to suit the requirements of different situations;
- 6.3.5 **Opportunity for innovation:** The General Assembly resolution establishing the Foundation calls for the stimulation of innovative approaches on the part of the Foundation in dealing with human settlements problems. In considering proposals, the Foundation will focus on those that offer opportunities to

¹⁹ UNEP GC19 (A/9575) Report of the Secretary General on the Establishment of an International Fund or Financial Institution for Human Settlements.

identify, encourage and support innovative approaches which promise to provide effective means for meeting the challenge of improving and developing human settlements programmes in developing countries and countries with economies in transition, as appropriate;

6.3.6 **Partnerships:** Priority will be given to programmes and projects which will enable the Foundation to promote better solutions and joint financing arrangements through the establishment of partnerships with multilateral and bilateral agencies as well as private financial institutions;

6.3.7 **Potential for success:** Priority will be given to programmes and projects which have good prospects for success without prejudice to the need to support innovative pilot programmes in challenging environments such as huge slum settlements.

6.4 With regard to reimbursable seeding capital operations, three criteria will be taken into consideration to determine countries' eligibility to borrow Foundation resources:

6.4.1 Relative poverty, which is defined as GNP per capita below an established threshold (\$965 as of July 1 2005 (source: World Bank) and is to be reviewed periodically by the Governing Council upon the recommendation of the Executive Director;

6.4.2 Good policy performance, defined as the implementation of pro-poor economic and social policies designed to promote growth as they reduce poverty and improve the supply of affordable low-income housing and slum upgrading;

6.4.3 Ability to borrow on market terms at commercial rates and availability of commercial lending to finance shelter and related activities in a country;

6.5 The amount of funds that the Foundation will provide as a loan, loan guarantee or equity investment will depend on:

6.5.1 The borrower's need, as presented in the project proposal and as verified through technical review by the Foundation;

6.5.2 The total amount of funds of the Foundation and, in particular, of the Loan Fund (Revolving Fund Account), and the apportionment by the Governing Council, upon the recommendation of the Executive Director, of these funds among the three funding categories (loans, loan guarantees and equity);

6.5.3 The ability of the borrowing institution to absorb and effectively utilize funds provided by the Foundation under its reimbursable seeding operations.

6.6 The Foundation, in collaboration with the Governments concerned, will give emphasis to programmes and projects for creating or strengthening appropriate institutions and systems necessary to mobilize domestic and external resources, giving priority to the former, and to allocate such funds to the most appropriate investments, consistent with national and local objectives in pursuit of implementation of the Habitat Agenda. Proposals for both urban and rural settlements will be considered and emphasis will be placed on channeling resources to meet the needs of lower-income groups²⁰ and with due attention to gender equity. 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 and national housing banks or other publicly financed institutions engaged in resource mobilization and utilization.

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

6.8 The Foundation will seek to maintain reasonable diversification in its investments in equity capital; it will not assume responsibility for managing any entity or enterprise in which it has an investment, except where necessary to safeguard its investments, in which case it will appoint or outsource such management responsibility. When the sale of the Foundation equity does not adversely affect the enterprise, consideration shall be given to the use of resources from the sale of equity in other projects where such a catalytic role is needed in line with its Revolving Fund Account objectives.

20 UNEP/GC/36, paragraph 53.

Article 7

Lending operations

A. Eligibility criteria

- 7.1 Eligible recipients are:
- 7.1.1 Governments of States who are eligible for membership in the Governing Council as well as local governments, municipalities, provinces or organizations of any eligible Government;
 - 7.1.2 Public and private companies, foundations, non-governmental organizations and projects registered lawfully to carry out their business in a State whose Government is eligible in accordance with the present article;
 - 7.1.3 Joint ventures, be they in the domestic public sector or the foreign public or private sectors, and joint private domestic and foreign ventures;
 - 7.1.4 Private foreign establishments legally incorporated in the recipient country;
 - 7.1.5 Public international, regional or national organizations;
- 7.2 All countries, particularly developing countries and countries with economies in transition, that are eligible for membership of the Governing Council are eligible to receive reimbursable seeding operation funding, including loans, loan guarantees and equity investments, with due regard to article 6.3;
- 7.3 Reimbursable seed capital and equity investments will also be provided to eligible and qualified savings and credit facilities that collect deposits from the household sector, including building societies, savings banks, cooperative and similar organizations, mortgage institutions, national housing banks or other publicly financed institutions engaged in resource mobilization for shelter and related infrastructure;
- 7.4 The Foundation will not provide financing if in its opinion such financing is available from other sources on terms that are reasonable for the recipient in line with Article 6.4.3;
- 7.5 Loan guarantee and mortgage insurance will be extended, in addition to those recipients mentioned above, to retail banks to encourage the flow of domestic resources to qualified developers and local authorities for shelter and related infrastructure;
- 7.6 All Foundation reimbursable seeding operations will require a “no-objection” certificate from the Government in whose territory the project is to be implemented.

B. Lending from voluntary contributions

- 7.9 A primary function of the Foundation is the provision of seed capital to developing countries to give strength to institutions early in their lives or during a period of strengthening. The Foundation will provide seed capital to eligible public and private institutions from voluntary contributions at no interest (with or without a small service charge for administrative costs) or as a credit with a nominal interest of between 2 and 3 per cent²¹ for programmes and projects addressing the needs of low-income groups, particularly in slum areas.
- 7.10 Loans will normally be extended for a period up to 15 years, including a grace period of up to five years during which no payment will be required on the principal amount of the loan. The repayment period should be set to be as short as possible in order to allow for the revolving use of Foundation funds.²²
- 7.11 The Foundation will transfer loan funds to a borrower through a handling bank selected by the Foundation in accordance with an agreed transfer schedule that will form part of the loan agreement between the Foundation and the borrower through the handling bank. The loan amount and repayment schedule will be expressed in

21 A/C.5/32/24, paragraph 26.

22 Ibid.

- United States Dollars,²³ with due regard to article 7.14 below on repayments, or in other acceptable currencies where applicable.
- 7.12 A separate account will be established by the borrower for the purpose of receiving loan disbursements from the Foundation's handling bank and for payment of expenses incurred under the loan agreement that is established between the Foundation and the borrower through the handling bank.²⁴
- 7.13 The Borrower will pay to the Foundation a commitment charge on the principal amount of the loan not withdrawn and a nominal interest rate per year on the outstanding principal of the loan. The amount of the commitment charge and the interest rate charge will be established by the Executive Director, taking into account the recommendations of the Lending Operations Review Committee. Repayment of principal and interest will be made annually in accordance with the amortization schedule that will form part of the loan agreement between the Foundation and the Borrower.
- 7.14 Payments of principal, interest and other charges to the Foundation by the borrower will be made in United States Dollars or in other currencies acceptable to the Foundation at the United Nations operational rate of exchange in effect on the date that payment is made. All payments to the Foundation will be made by the borrower to the accounts designated by the Foundation through the handling bank.²⁵
- 7.15 The principal of, and interest and other charges on, any loan will be repaid by the borrower without deduction for, and free from, any taxes and free from all restrictions imposed under the laws of the authorities of the territory in which the project funded by the loan takes place. Loans from the Foundation will be free of any taxes that may be imposed under the laws of the borrower or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof, and 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 in the territories of such country or countries.²⁶
- 7.16 The borrower will maintain, or cause to be maintained, records adequate to identify the goods and services financed with the proceeds of the loan, to disclose the use thereof in the project, to record the progress of the project and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the borrower or its agencies responsible for the carrying out of the project or any part thereof or for the maintenance of all work facilities and equipment related thereto and will allow the Foundation and its agents to inspect the project, the goods financed out of the proceeds of the loan and any relevant records and documents.²⁷
- 7.17 In making or guaranteeing a loan, the Foundation will pay due regard to the prospects that the borrower and its guarantor, if any, will be in a position to meet their obligations under the loan contract.²⁸
- 7.18 In the case of a direct loan made by the Foundation, the borrower will be permitted by the Foundation to draw its funds only to make expenditures in connection with the project at the time such expenditures are to be made.²⁹
- 7.19 The Foundation, in collaboration with the handling bank, will take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by the Foundation are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency.³⁰

C. Lending from external borrowing

UNHHSF Financial Regulation 1.1, adopted by General Assembly resolution 32/451

Under rules established by the Secretary-General, loans may be made from the resources of the United Nations Habitat and Human Settlements Foundation, including those borrowed pursuant to UNHHSF Regulation 1.2, in the implementation of the approved programmes of the Foundation.

23 A/C.5.32/24, Model Loan Agreement.

24 Ibid.

25 *ibid*, paragraph 2.06.

26 *ibid*, paragraph 2.07.

27 *ibid*, paragraph 4.03.

28 Agreement Establishing the Asian Development Bank, Article 14, paragraph (vi).

29 Agreement establishing the Asian Development Bank, Article 14, paragraph (x).

30 Agreement establishing the Asian Development Bank, Article 14, paragraph (xi).

- 7.20 The Foundation will move into lending from borrowed money very cautiously. Close relations will be established with other relevant multilateral and bilateral financial institutions and development agencies to learn from their best practices in this area. In the initial years, lending operations will be made to qualified borrowers exclusively from the Foundation's voluntary contributions.
- 7.21 The Foundation will lend funds from external borrowing to eligible national public and private institutions (see article 7.1) for financing housing schemes for middle- and lower-income groups and to municipalities with good credit ratings at a relatively lower interest rate than the one prevailing in the market. The conditions on lending, including the spread between market rates and the Foundation lending rate, grace period and amortization period, administrative fees and commitment charges, will be established by the Executive Director in accordance with the guidelines of the Governing Council and taking into account the recommendations of the Lending Operations Review Committee and with special regard to the terms and conditions under which the Foundation has borrowed the funds. The provisions of the model Loan Agreement will also apply to reimbursable seeding operations financed from the external borrowing of the Foundation.
- 7.22 The ratio of the Loan Fund Reserve to the Foundation loan portfolio from borrowed resources will be determined in accordance with the guidelines of the Governing Council and taking into account the recommendations of the Lending Operations Review Committee with due regard to Foundation financial rules 303.9 and 303.10. This ratio will be reviewed from time to time by the Lending Operations Review Committee and may be modified by the Executive Director taking into account the recommendations of the Committee.

D. Procedures for reimbursable seeding operations

- 7.23 The Foundation shall carry out its reimbursable seeding operations in accordance with the relevant resolutions of the General Assembly and the Governing Council and in full compliance with the financial regulations and rules of the Foundation as promulgated by the Secretary General on 20 July 2006, which entered into force on 1 August 2006.
- 7.24 The applicant for a loan, loan guarantee or equity investment shall submit a detailed proposal containing information in a format designed by the Foundation for this purpose.
- 7.25 The staff of the Foundation or consultants contracted by the Foundation for such purpose will review the proposal and present a written report to the Executive Director assessing the technical merit of the proposal and providing recommendations regarding its approval for further development.³¹
- 7.26 In considering a request for a loan, loan guarantee or equity investment, the Foundation will take into account the ability of the prospective borrower to obtain such financing from other sources on terms which, in the opinion of the Foundation, are reasonable for the borrower, taking into account all pertinent factors.³²
- 7.27 In making or guaranteeing a loan, the Foundation will pay due regard to prospects that the borrower and its guarantor, if any, will be in a position to meet their obligations under the loan contract.
- 7.28 In guaranteeing a loan or other obligation the Foundation will charge a guarantee fee payable periodically on the amount of the loan outstanding at a rate determined by the Executive Director. Guarantee contracts concluded by the Foundation will provide that the Foundation may terminate its liability with respect to interest if, upon default by the borrower and by the guarantor, if any, the Foundation offers to purchase, at par and with interest accrued to a date designated in the offer, the obligation guaranteed.³³
- 7.29 In projects involving loan guarantees, the main product of the Foundation will be local currency guarantees for domestic bank loans and bonds, rather than direct provision of loans or equity investments. The rationale is that guarantees have a major demonstration effect or learning impact on local lending institutions and encourage them gradually to assume more, and ultimately all, of the risk. A guarantee instrument can also be tailored to allow increased leverage as risk perceptions improve over time. Furthermore, the availability of secure and attractive guaranteed debt instruments will provide investors with more choices, encourage local savings and reduce capital flight and thus strengthen the local capital market.³⁴

31 Agreement Establishing the Inter-American Development Bank, Section 7.

32 Ibid.

33 Agreement Establishing the Inter-American Development Bank, Section 11.

34 HSP/GC/19/2/Add.4, paragraph 55.

- 7.30 The value of guarantees issued by the Foundation will initially be limited to the amount of paid-in capital of the Foundation. Over time the ratio will be increased to 3.5:1, which is the ratio adopted by the Multilateral Investment Guarantee Agency.
- 7.31 In the case of blended operations involving technical assistance provided by the Foundation on a grant basis as well as reimbursable seed capital operations, the costs associated with the technical assistance component of any project will be borne by the Foundation and charged to the income from the loan provided by the Foundation.
- 7.32 The Secretary-General will establish guidelines regarding:
- 7.32.1 The percentage of the loan guarantee portfolio that should be reinsured;
- 7.32.2 The amount of risk that commercial lenders will be required to assume;
- 7.32.3 The percentage of project costs that will be met by down payments or contributions from project sponsors or beneficiaries.

These guidelines shall be, established by the Secretary General based on the recommendations made by the Executive Director who, in turn, shall take into account the recommendations of the Lending Operations Review Committee.

- 7.33 In designing projects involving seed capital the Foundation will, as in the case of extending technical assistance, examine existing institutions and identify bottlenecks to the effective mobilization and utilization of domestic resources.
- 7.34 A principal use of seed capital will be to help newly established institutions to accumulate the minimum amount necessary to begin their operations and to sustain themselves until earnings from their operations are adequate. Such external help in the form of seed capital could be a crucial factor in establishing and strengthening domestic financial institutions concerned with human settlements programmes. The Foundation will extend seed capital from its own resources, but it will also encourage the active participation and collaboration of other agencies and bodies within the United Nations system and regional and private sector financial and technical institutions as joint financiers providing seed capital. In some cases, the Foundation might confine its assistance to the provision of technical services but it is more likely that the extension of seed capital finance would be accompanied by assistance with technical services.

E. Equity financing

- 7.35 The Foundation will take equity stakes in private sector companies and other entities such as financial institutions and portfolio and investment funds in member States. The Foundation will participate as a long-term investor and will normally maintain equity investments for a period of up to five years. In cases in which the withdrawal of its investment might have adverse effects on the operations of the enterprise, it will consider extending the period of its investment beyond five years. When the time comes to liquidate its investment in a given enterprise, the Foundation will endeavour to do so by selling its shares through the domestic stock market in a way that will benefit the enterprise, often in a public offering.
- 7.36 The Foundation will operate its equity financing on a commercial basis. It will invest exclusively in for-profit projects and will, notwithstanding its development objective, charge market rates for its products and services. To ensure the participation of private investors, the Foundation will generally subscribe up to 15 per cent of a project's equity and in exceptional cases up to 35 per cent. The Foundation's equity investments will be based on project needs and anticipated returns. The Foundation will not take an active role in company management.
- 7.37 The Foundation will risk its own capital and does not necessarily require government guarantees for its equity investment. To meet national ownership requirements, however, the Foundation's shareholdings can be treated as domestic capital or local shares.

Article 8 Borrowing operations

UNHHSF Regulation 1.2, adopted by General Assembly resolution 32/451

Under rules established by the Secretary-General, borrowings may be incurred for the reimbursable seeding operations of the United Nations Habitat and Human Settlements Foundation from governments and governmental agencies and intergovernmental organizations provided that:

(a) The net borrowings outstanding at any time under this regulation shall not exceed limits established by the Secretary-General, with due regard to the maintenance of adequate reserves to secure such borrowings and to the proper functioning of the Foundation;

(b) The principal of any borrowings under this regulation and any interest or other charges thereon shall only be payable from the resources of the Foundation, and no lender shall have any claim against the United Nations or any of its other assets. Resources of the Foundation may be committed as security for the repayment of borrowings and the charges thereon. The Executive Director shall identify the resources which will be available for this purpose.

A. Foundation authority for external borrowing

- 8.1 Borrowing by the Foundation for reimbursable seeding operations has been authorized by the General Assembly in UNHHSF Financial Regulation 1.2 from Governments, governmental agencies and intergovernmental organizations provided that:
- 8.1.1 The net borrowings outstanding at any time under this regulation do not exceed limits established by the Secretary-General, with due regard to the maintenance of adequate reserves to secure such borrowings and to the proper functioning of the Foundation;
- 8.1.2 The principal of any borrowings under this regulation and any interest or other charges thereon, including those under rule 304.16(b) will only be payable from the account from which the principal amounts were obtained and that no lender will have any claim against the United Nations or any of its other assets. Only resources from the Foundation Loan Fund and its reserve may be committed as security for the repayment of borrowings and the charges thereon, including those under rule 304.16(b). The Executive Director will identify the resources which will be available for this purpose.
- 8.2 Borrowing for reimbursable seeding operations will be incurred by the Executive Director, in accordance with rule 303.9, within the limits set by the Secretary-General from time to time based upon the recommendations made by the Executive Director and with due regard to the prospective resources requirements set by the United Nations General Assembly and the performance of the Foundation in managing the loan fund operations from voluntary resources. Funds obtained from borrowing shall be credited to the Loan Fund of the Foundation.³⁵
- 8.3 Borrowed funds will be kept in a separate account from other Foundation, UN-Habitat and United Nations accounts and will be used by the Foundation only for reimbursable seeding operations and the related administrative cost of such operations.
- 8.4 In undertaking external borrowing for the Foundation, the Executive Director will ensure that the Foundation maintains adequate resources in the Foundation Loan Fund Reserve to secure the liabilities arising from such borrowing, taking into account the prospective resources requirements set by the United Nations General Assembly and the performance of the Foundation in managing the Loan Fund operations from voluntary resources.

35 Financial rule 303.9.

- 8.5 The maximum amount that the Foundation is permitted to borrow will be set by the Secretary-General on the basis of the recommendation of the Executive Director in relation to the capital received by the Foundation from voluntary contributions and other sources, after setting aside amounts to be reserved for technical assistance grants, seed capital and administrative expenses. The amount thus set aside will constitute a part of the invested funds of the Foundation and may be pledged, as necessary, as security for amounts borrowed.³⁶ The Secretary-General, upon the recommendation of the Executive Director, will establish and review periodically the limit on the amount of funds to be borrowed by the Foundation, taking into account the experience of the Foundation in its lending operations and funds received by the Foundation from voluntary contributions and other sources.
- 8.6 The Foundation will only accept loans with such terms that will allow it to obtain a reasonable spread between the cost of borrowing and the interest it earns on funds that it lends. In borrowing funds, the Foundation shall comply with competitive procedures set by the Secretary-General for this purpose.³⁷
- 8.7 The Foundation will take a cautious and conservative approach to borrowing. This approach, will ensure compliance with the Foundation Financial Regulations and Rules, in particular, rules 302.1, 303.9, 303.10. The approach is reflected in the following three phases:
- 8.7.1 **Phase 1 (2007–2011): Lending from voluntary contributions:** Initially, the Foundation will provide financing for reimbursable seeding operations solely from the capital it receives from earmarked voluntary contributions and other such sources. Only after having achieved a demonstrated track record of successful lending from its voluntary contributions will the Foundation undertake borrowing activities. The Lending Operations Review Committee will provide recommendations on specific indicators and benchmarks that will be applied to evaluate the performance of the Foundation in reimbursable seeding operations;
- 8.7.2 **Phase 2 (2102–2016): Government and institutional borrowing:** Having achieved the phase 1 benchmarks, the Foundation may embark on borrowing operations, within limits set by the Secretary-General and upon the recommendation of the Executive Director, from Governments, governmental agencies and intergovernmental organizations, subject to an evaluation report to be prepared by the Loan Operations Review Committee (discussed below) and submitted to the Governing Council at its twenty-third session and to the provisions of financial rules 303.9 and 303.10. The Lending Operations Review Committee will provide recommendations on specific indicators and benchmarks that will be applied to evaluate the performance and institutional capacity of the Foundation for phase 2 reimbursable seeding operations.
- 8.7.3 **Phase 3: Issuance of debt:** Only after having achieved the phase 2 benchmarks and a demonstrated track record of successful borrowing and lending will the Foundation undertake to raise funds by issuing debt such as bonds and other debt instruments. The Secretary-General, in accordance with financial rules 309 and 310, and upon the recommendation of the Executive Director, shall set the limit at which the Foundation will be authorized to issue its own debt instruments, either directly on its own or through eligible financial institutions in borrowing countries.

B. Liability for borrowing incurred by the Foundation

- 8.8 Pursuant to UNHHSF Financial Regulation 1.2 (b), the repayment of borrowing under the Regulation, including the principal amount and any interest or other charges thereon, will be made only from the resources of the Foundation Loan Fund and its reserve and not from other accounts or resources of the Foundation, UN-Habitat or the United Nations, and no lender will have any claim against UN-Habitat, the United Nations, or any of their assets. Only the resources of the Foundation, as identified by the Executive Director, may be committed as security for the repayment of borrowings and charges thereon. As such, the borrowing of money by the Foundation from Governments or other sources will constitute a liability solely against the resources set aside by the Foundation to secure such borrowings.³⁸ This limitation of liability will be explicitly stated in all loan agreements.

³⁶ A/C.5.32/24, paragraph 34.

³⁷ Financial rule 303.9(g).

³⁸ Financial rule 303.10.

Article 9

Programme activities

Preparation of the biennial programme budget

- 9.1 The Executive Director will prepare on a gross basis a proposed biennial programme budget covering expected income and anticipated expenditures, based on the anticipated voluntary contributions and extra-budgetary funds for the two-year period. The budget will cover all anticipated activities, including the projects to be carried out under lending operations on a reimbursable basis of the Foundation pursuant to UNHHSF Financial Regulation 1.1 and programme support costs of the Foundation. The format will be consistent with relevant United Nations budgetary regulations, rules, policies and practices. The programme budget will include provision for contingencies.³⁹
- 9.2 The portion of the proposed programme budget covering programme support costs will be submitted to the Advisory Committee on Administrative and Budgetary Questions for examination and comment. Subsequently, the entire proposed programme budget and the comments of the Advisory Committee will be submitted to the Governing Council for its approval.⁴⁰
- 9.3 Supplementary programme budget proposals in respect of the current financial period, prepared in a form consistent with the programme budget, will be submitted by the Executive Director to the Governing Council, together with the comments of the Advisory Committee on Administrative and Budgetary Questions on the programme support costs, in time for the opening of its regular session in the calendar year involved.⁴¹

Article 10

Projects

A. General principles

- 10.1 The operations of the Foundation will provide principally for the financing of specific projects, including those forming part of a national, subregional or regional development programme (see article 7.1). The projects may include one or more of the following:
- 10.1.1 Grants to eligible national and subnational Governments, local governments, regional municipalities, government agencies, financial institutions, eligible non-governmental entities, private sector entities;
- 10.1.2 Reimbursable seeding operations, including loans and/or guarantees of loans and/or equity investments, made to eligible Governments, government agencies, financial institutions and private sector entities.
- 10.2 Projects may include one or more of the following components:
- 10.2.1 Development operations for shelter and related infrastructure;
- 10.2.2 Research;
- 10.3.3 Technical assistance and training;
- 10.4.4 Reimbursable seeding capital for loans and/or loan guarantees and/or equity investment.
- 10.3 In rendering its technical and financial services, the Foundation will be responsible for the projects and programmes it finances, whether carried out directly or by others on its behalf. In assuming this responsibility, the Foundation's professional staff will assess project proposals and help in the formulation and management

39 Financial rule 302.1(a).
40 Financial rule 302.2.
41 Financial rule 302.5.

of programmes. In performing these functions, the Foundation will decide which kinds of expertise will be required for a particular task and then locate and employ such expertise as required.⁴²

- 10.4 It is not intended that the professional staff of the Foundation shall perform all of the technical and financial services to be provided by the Foundation. It should concentrate mainly on stimulating, facilitating, supporting and supervising action by others. Thus, in pursuance of its responsibility, it will often entrust the implementation of services to other competent bodies within and outside the United Nations system and limit direct action by itself to the design and field testing of special pilot programmes before they can be outsourced at any scale.
- 10.5 The Foundation will emphasize projects and programmes that have an operational content and purpose. In extending financial and technical services, it will pursue clearly identified, result-oriented objectives.
- 10.6 The building or strengthening of institutions, with or without the infusion of seed capital, and the concern with improved financial strategies and housing finance policies, may often form part of a total programme involving mobilization of domestic as well as external resources. This may give rise to the need for assistance in the pre-investment and project preparation phases of human settlements investment activities to which the Foundation may respond. The Foundation, in its consideration of a country's programme, will take due account of the likely timing of its various stages and accordingly make provision, within its mandate, for assistance through the various phases of programme and project preparation. At this stage, the Foundation will seek and welcome earmarked voluntary contributions from governments, governmental agencies and financial institutions through other technical assistance projects of UN-Habitat divisions.

B. Identification

- 10.7 At the identification stage, an eligible applicant presents a request to the Foundation to consider specific operations for grants or reimbursable seeding financing. The Foundation and the applicant then identify the issues to be addressed while designing the project and establish the strategy for project preparation. Projects first appear in the project pipeline at the identification stage. There may be some need for individual consultants at this stage.
- 10.8 The Foundation will work closely with other interested agencies and bodies during the pre-investment and project preparation phase in order to contribute to orderly and coherent collaborative work among the different parts of the international community concerned with human settlements. In particular, the Foundation will strive to establish close working relationships with multilateral development banks in order to associate them in the pre-investment and project preparation stages⁴³ as far as possible.
- 10.9 The identification of a project can come from several sources. Projects may be identified by any of the following eligible recipients (see article 7.1): the government of a territory included within the Foundation membership, local governments, a political subdivision of any of the foregoing, a public or private entity in the territories of a member or members of the Foundation, or a public international, regional or national organization.
- 10.10 For a project to be formally identified as a priority project and included in the Foundation's two-year work programme, it must have the provisional support of both the Government of the territory where the project is to take place and the Foundation to ensure that its objectives are shared by both. It must also meet a prima facie test of feasibility, i.e., that technical and institutional solutions are likely to be found at a cost commensurate with expected benefits.
- 10.11 The Executive Director, upon request from and in collaboration with the Governments and eligible applicants concerned, will formulate projects within the scope of the primary operative objective of the Foundation in accordance with policy directives issued by the Governing Council.
- 10.12 For each project, a project document shall be drawn up describing all financial, technical, managerial and other resources required for the successful implementation of the project and stating clearly the responsibility for providing these resources of the Foundation, participating Governments and agencies concerned and co-financiers, if any.
- 10.13 Once identified, a project submitted by an eligible applicant is incorporated into a rolling two-year work programme for the country in whose territory the project is to take place. A given country's rolling work programme forms the basis for the Foundation's future operations in that country and is used for programming

42 UNEP/GC/36, paragraphs 22 to 29.

43 UNEP/GC/36, paragraph 57.

and allocating funds for the Foundation's operations and to ensure that adequate resources are available to support each successive phase of a project cycle.

C. Preparation

- 10.14 The preparation stage is carried out by the applicant in collaboration with the Foundation and, if necessary, with technical assistance financed by the Foundation. The purpose of this phase is to define the scope of the project in more detail; establish its components; determine costs and financial, institutional and social issues; and carry out an environmental impact assessment and other engineering and design studies. Consulting firms, hired by the applicant with or without financing provided by the Foundation, are often required during project preparation.
- 10.15 Once a project has been incorporated into the work programme for the biennium, an extensive preparation period of close collaboration between the Foundation and the beneficiary or executing agency begins. A project document is prepared for each project, describing its objectives, identifying principal issues and establishing a timetable for its further processing.
- 10.16 The preparation of a project feasibility study transforms the project idea into a detailed proposal that covers the full range of technical, economic, financial, social, institutional and environmental aspects. The goal is to come up with the best method of achieving the project's objectives by comparing alternatives on the basis of their relative costs and benefits.
- 10.17 Formal responsibility for project preparation rests with the beneficiary or executing agency. The Foundation plays an active role in ensuring a timely flow of well-prepared projects, including by ensuring that the beneficiary has the capacity and resources to prepare the project and understands the Foundation's requirements and standards and by updating and filling in the gaps in project preparation documents, if required.
- 10.18 At the request of an eligible applicant, the Foundation can extend financial and technical assistance for project preparation in a number of ways. It can provide grants or technical assistance for the preparation of a feasibility study, for detailed design, for the preparation of tender documents or for project supervision. In providing such assistance, the Foundation ensures that the concerned Government and the beneficiary are fully committed to the project and deeply involved in its preparation.

D. Appraisal⁴⁴

- 10.19 The appraisal stage is carried out by the Foundation to assess the financial, technical, social and environmental feasibility of a project according to the Foundation's criteria and the observations and recommendations of the Lending Operations Review Committee. During this stage, a detailed schedule of goods and services required for project execution is prepared, along with executing arrangements. If required, the Foundation will hire individual consultants to assist in project analysis.
- 10.20 An appraisal mission examines such matters as components to be financed by the Foundation, terms and conditions of Foundation financing, project procurement action plans, project implementation plans and disbursement profiles. It also reviews the legal aspects of the project, including the draft project financing agreement and conditions of effectiveness, and concludes an understanding on these issues with the beneficiary or borrower and the executing agencies. The appraisal mission and the beneficiary should endeavour to agree on the measures necessary to assure the success of the project.
- 10.21 Appraisal of a project is the sole responsibility of the Foundation and is conducted by its staff, supplemented by outside consultants as required. Appraisal activities cover the review and assessment of the following major aspects of a project:

1) Technical

10.21.1 The Foundation must ensure that projects are soundly designed and appropriately engineered and that they follow accepted industry or sector standards. The appraisal mission looks into technical alternatives provided, solutions proposed and results expected. Technical appraisal is concerned with questions of physical scale, layout and location of facilities. It looks into the technology to be used, including equipment and processes and their appropriateness to local conditions, the approach to be followed for the provision of services, how realistic implementation schedules are and the likelihood of achieving expected levels of output;

44 Based on the Islamic Development Bank project cycle.

2) Institutional

10.21.2 The mission from the Foundation verifies whether the entity is properly organized and its management is adequate to perform the job and whether the executing agency needs capacity-building support, among other things. This is essential in order to avoid problems that often arise during project implementation and operation;

3) Economic

10.21.3 The project is studied thoroughly in its various sectoral settings. The investment programme for the sector, the strengths and weaknesses of public and private sectoral institutions and key government policies are all examined. Cost-benefit analysis and cost-effectiveness analysis will be used as appropriate. The project in most cases is subjected to a detailed cost-benefit analysis of alternative project designs, the result of which is usually expressed as an economic rate of return. "Shadow" prices are used routinely when the true economic values of costs are not reflected in market prices as a result of various distortions such as trade restrictions, taxes or subsidies. The distribution of the benefits of a project and its fiscal impact are considered carefully. Since the estimates of future costs and benefits are subject to substantial margins of error, a sensitivity analysis is conducted to assess the sensitivity of the return on the project to variations in selected key assumptions. Macroeconomic benefits and impacts such as value added and the effect on the labour market and the price of materials are also considered;

4) Financial

10.21.4 Financial appraisal has several purposes. One is to ensure that there are sufficient funds to cover the costs of implementing the project. The Foundation does not normally finance the total cost of a project; typical project financing comprises foreign exchange costs (better known as foreign components) and expects the beneficiary, the borrower or the Government in whose territory the project is to take place to meet some or all of the local costs. In addition, co-financers may join in to co-finance a project. Thus, project appraisal ensures that a suitable financing plan exists to make funds available for implementing a project in a timely manner;

10.21.5 The financial appraisal is also concerned with financial viability. It includes an assessment of the concerned enterprise's ability to meet all of its financial obligations, including repayments (in the case of reimbursable seeding operations) to the Foundation and other lenders in case of co-financing and its ability to generate enough funds from internal resources to earn a reasonable rate of return on its assets and make a satisfactory contribution to its future capital requirements, among other things. The finances of the enterprise are closely reviewed through projections of its balance sheet and income statement and cash flow statements. Additional safeguards of financial integrity may include establishing suitable debt-to-equity ratios or placing a limit on additional long-term financing;

10.21.6 The financial review often highlights the need to adjust the level and structure of prices charged by the enterprise. It is also concerned with recovering investment and operating costs from project beneficiaries;

5) Social assessment

10.21.7 Social assessment provides a benchmark on potential beneficiaries and the extent to which project benefits and costs will be distributed among them. Adverse effects are quantified and appropriate remedial actions put in place to alleviate them;

10.21.8 Another goal of social appraisal is the attainment of a better understanding of local organizational arrangements (social and cultural issues) so that they are incorporated in the design of the project as an aid to its successful implementation;

6) Environmental impact

10.21.9 During the early stages of project preparation, the Foundation will determine the need to undertake an environmental assessment. The decision to carry out such an assessment will depend upon the nature and scale of the project. Should an environmental impact assessment be required, the final design will identify the environmental risks associated with the project and provide recommendations and guidelines for mitigating any negative environmental impacts. Contingent valuation carried out by resource economists will be used to determine environmental impact assessment.

- 10.22 The appraisal mission will prepare a project appraisal report that will set forth its findings and recommendations. In the case of reimbursable seeding capital operations, the project appraisal report will also include recommendations concerning the level, terms and conditions of Foundation financing. This report is carefully prepared to reflect the agreements reached, reviewed and cleared according to Foundation operational procedures and guidelines and any other relevant directives before submission of the project to the Executive Director for final approval.

E. Negotiation and approval⁴⁵

- 10.23 Each project shall be approved by the Executive Director. He or she may, from time to time, submit project proposals to the Governing Council for its consideration due to their policy implications and/or magnitude.
- 10.24 Upon obtaining the concurrence of the beneficiary on the terms and conditions of Foundation financing, the project is presented to the Executive Director for approval. On approval by the Executive Director, the decision is communicated to the beneficiary. Subsequently, the project agreement is finalized, signed and declared effective. This marks the end of the processing phase of the project cycle and the beginning of implementation. The project appraisal report is provided to the beneficiary and the project executing agency.
- 10.25 The draft project financing agreement is negotiated and at the end of the appraisal mission work a memorandum of understanding reflecting the discussions and understanding reached by the appraisal mission and the beneficiary is signed.
- 10.26 The negotiation and approval stage is carried out between the applicant and the Foundation. The terms of the operation are established and should the operation involve reimbursable seeding financing (loan, loan guarantee, equity investment or a combination thereof) the reimbursable component is reviewed by the Lending Operations Review Committee and approved by the Executive Director, taking into account the recommendations of the Lending Operations Review Committee.

F. Execution and supervision

- 10.27 Once the operation agreement is signed and becomes effective, project execution begins. Consultants may be used for studies, training and institutional strengthening during this phase. It is also during this phase that goods and equipment are purchased and civil works are carried out.
- 10.28 Implementation of a project is the responsibility of the beneficiary. The Foundation's role is to follow-up the implementation and procurement processes. Follow-up is primarily concerned with that period in a project's life when physical components are being constructed, equipment purchased and installed and new institutions, programmes and policies put in place.
- 10.29 The main purpose of follow-up is to help ensure that a project achieves its development objectives and, in particular, to work with the beneficiary in identifying and dealing with problems that arise during implementation. Follow-up, therefore, is primarily an exercise in collective problem-solving.
- 10.30 Follow-up takes place in a variety of ways. During appraisal, agreement will have been reached on a schedule of progress reports to be submitted by the beneficiary. Based on this, the beneficiary provides periodic progress reports covering the physical execution of the project.
- 10.31 Progress reports are reviewed at the Foundation. Problems that arise are dealt with through correspondence or in the course of project follow-up missions undertaken by Foundation staff except where responsibility for oversight is delegated to other partners, e.g., local financial institutions or handling banks and other agents. The frequency of these missions is tailored to suit the complexity of a project, the status of its implementation and the number and nature of problems encountered.
- 10.32 An important element of a project's follow-up concerns the procurement of goods and services financed under the project agreement. Procurement is carried out in accordance with guidelines that are incorporated in the project agreement and that are designed to rule out their incompatibility with the Financial Regulations and Rules of the United Nations and to ensure that the requisite goods and services are procured in the most efficient and economical manner.
- 10.33 During project preparation, monitoring and evaluation indicators for the project will be defined. The indicators will measure the physical and financial advance of the project and will include output indicators as well as key impact indicators. The indicators will be clearly defined and readily measurable. The evaluation and monitoring system to be applied during the project will be described, including the source, methodology and

45 Based on the Islamic Development Bank project cycle.

frequency of data collection, the person or unit responsible for data collection, and the form of any output tables that are to be presented. During execution of the project, the monitoring and evaluation system will be implemented and maintained by the executing agency and the results presented to the Foundation in periodic progress reports. In addition, for all projects financed by the Foundation, the monitoring and evaluation system will include a web-based component that will allow the Foundation to review the project's progress via the internet. (This is to provide real time information to the Foundation or its agent).

- 10.34 Upon physical completion of a project, the beneficiary submits a project completion report to the Foundation. Subsequently, the Human Settlements Financing Division will prepare the Foundation's project completion report.

G. Ex-post evaluation

- 10.35 Upon completion, all Foundation-assisted projects are subject to post-evaluation. To ensure its independence and objectivity, this review is carried out by the Monitoring and Evaluation Unit of the Foundation.
- 10.36 An evaluation report on each project will be completed within two to five years of its completion. This report assesses the impact of the project and compares actual results with results expected at the time of project appraisal. Valuable lessons are learned over time from successes and failures. Results and recommendations drawn from these reports are fed back into the design and implementation of future policies and financing operations.

Article 11 Administration of the Foundation

A. General policies

- 11.1 The planning, programming, monitoring and evaluation activities of the Foundation will be carried out in accordance with the policies and procedures established by the General Assembly and the Governing Council.
- 11.2 The Governing Council may issue additional policy and procedural directives with a view to ensuring that the resources of the Foundation are utilized with maximum efficiency and effectiveness in pursuance of its operative objectives and set priorities.
- 11.3 The Executive Director will establish programmes, guidelines and directives to achieve the objectives of the Foundation.

B. Foundation staff

- 11.4 The staff of the Foundation will be appointed by the Executive Director for service specifically with the Foundation. The appointment and promotion of the staff of the Foundation will be subject, unless the General Assembly decides otherwise, to the provisions of the Staff Regulations and the Staff Rules of the United Nations. Staff paid from Foundation resources shall be recruited on as wide a geographic basis as possible. As stated in article 4.15 of the present Operational Guidelines and Procedures, the Foundation will build on the existing capabilities and structure of UN-Habitat (see chart 2 - organizational structure of UN-Habitat (ST/SGB/2002/14), above.)

C. Foundation accounts

- 11.5 The following accounts will be maintained by the Foundation:
- 11.5.1 General Fund account;
 - 11.5.2 General Fund reserve;
 - 11.5.3 Loan Fund account;
 - 11.5.4 Loan Fund Reserve account;
 - 11.5.6 Trust fund accounts;
 - 11.5.7 Programme support costs account;

- 11.5.8 Such other accounts as may be required by the Secretary-General.
- 11.6 The Loan Fund account (also referred to as the Revolving Fund account - see chart 2 on financial flows of the UN-Habitat and UNHHSF, above) will be established for the administration of resources from Foundation voluntary contributions for lending operations and borrowing incurred by the Foundation. Funds obtained from borrowing will be credited to the Loan Fund account. Borrowed funds, which will be established and administered separately from UN-Habitat and other Foundation and United Nations accounts, will be used by the Foundation only for reimbursable seeding operations and the related administrative costs of such operations.
- 11.7 The Loan Fund Reserve account will be established by the Executive Director to provide and maintain security for funds borrowed by the Foundation and to maintain a sound cash flow situation in the Foundation Loan Fund. The resources of the Loan Fund Reserve will come from allocations by the Governing Council upon recommendation by the Executive Director from the General Fund, the grant component in the Loan Fund and the income from investment of Loan Fund (Revolving Fund Account) resources.
- 11.8 Reserve requirements will be monitored by the Executive Director, who is also the Administrator of the Foundation. The Deputy Executive Director, who is the manager of the Foundation in his or her capacity as Deputy Administrator, will assist the Executive Director in this task. The Deputy Executive Director is, in turn, assisted by the Director of the Human Settlements Financing Division.
- 11.9 The Executive Director/Administrator, assisted by the Controller and Internal Auditor of the Foundation, will establish the procedures to be followed by the Deputy Administrator and relevant staff of the Foundation for the effective monitoring of Loan Fund Reserve requirements;

D. Reports

- 11.10 The Executive Director shall report to the Governing Council on:
- 11.10.1 The status of Foundation resources;
- 11.10.2 The execution of the programme of activities;
- 11.10.3 The approval and execution of all projects.

E. Cooperation with other agencies

- 11.11 The Foundation will maintain close working contact with other 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.

Annex II

**Financial Regulations and Rules of the
United Nations (series 100)**

**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)**

Secretary-General's bulletin

Secretary-General's bulletin (ST/SGB.2006/8)

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)

1. The Secretary-General hereby promulgates a revised edition of the special annex for the United Nations Habitat and Human Settlements Foundation (UNHHSF) to the Financial Regulations and Rules of the United Nations.
2. The Financial Regulations of the United Nations as adopted by the General Assembly and the 100 series Rules formulated by the Secretary-General are promulgated in Secretary-General's bulletin ST/SGB/2003/7, dated 9 May 2003, and govern the administration of the financial activities of all United Nations entities for which the Secretary-General has administrative responsibilities, unless exceptions or additions are authorized. The present special annex of the 300 series Rules authorizes certain exceptions and additions to the 100 series Rules for UNHHSF.
3. The Financial Regulations of the United Nations, which were adopted by the General Assembly at its fifth session (resolution 456 (V) of 16 November 1950), have been amended several times by the Assembly in its resolutions and decisions. The last revised Financial Regulations were adopted by the Assembly in its decision 57/573 of 20 December 2002 and are effective from 1 January 2003. By the same decision, the Assembly also decided that former financial regulations 5.10 and 9.4, which applied exclusively to UNHHSF, would be presented in the special annex for UNHHSF to the Financial Regulations and Rules of the United Nations. The two regulations have been renumbered as "UN-Habitat Foundation regulation 1.1" and "UN-Habitat Foundation regulation 1.2".
4. The rules in the present special annex have been determined to be required for UNHHSF pursuant to the above-mentioned regulations and in view of the nature of its activities, the method of its funding and the procedures of its budget. The 100 series Rules shall govern UNHHSF unless exceptions or additions are authorized in the 300 series Rules herein promulgated.
5. The present bulletin supersedes Secretary-General's bulletin ST/SGB/UNHHSF Financial Rules/3 (1978).
6. The special annex of series 300 Rules shall enter into force on 1 August 2006 and will continue to be in effect until amended or superseded.

(Signed) Kofi A. **Annan**
Secretary-General

Contents

| <i>Article</i> | <i>Regulation</i> | <i>Rule</i> | <i>Page</i> |
|--|-------------------|-------------|-------------|
| I. General provisions | | | 46 |
| Applicability and authority | | 301.1 | 46 |
| Responsibility and accountability | | 301.2 | 46 |
| Definitions | | 301.3 | 46 |
| II. Budgets | | | 48 |
| A. Programme budget | | | 48 |
| Authority and responsibility | 1.1 | 302.1 | 48 |
| Presentation, content and methodology | | | 49 |
| Submission and approval of programme budget | | | 49 |
| Review and approval | | 302.2 | 49 |
| Revised and supplementary programme budget proposals, presentation and submission | | 302.5 | 49 |
| Resolutions with programme budget implications | | 302.6 | 49 |
| III. Contributions and other income | | | 49 |
| C. Voluntary contributions, gifts and donations | | | 49 |
| Authority and liability | | 303.4 | 49 |
| D. Miscellaneous income | | 303.6 | 50 |
| E. Receipts of funds | | | 50 |
| Receipt and deposit | | 303.8 | 50 |
| F. Foundation borrowing moneys | | | 51 |
| Foundation authority for external borrowing | 1.2 | | 51 |
| | | 303.9 | 51 |
| Liability for borrowing incurred by the Foundation | | 303.10 | 52 |
| IV. Custody of funds | | | 52 |
| A. Internal accounts | | | 52 |
| Foundation funds | | | 52 |

| | | |
|---|---------|----|
| Authority and responsibility..... | 304.3.1 | 52 |
| | 304.3.2 | 52 |
| | 304.3.3 | 53 |
| | 304.3.4 | 54 |
| | 304.3.5 | 54 |
| | 304.6 | 54 |
| C. Investments | 304.12 | 54 |
| Income from investment | 304.15 | 54 |
| Losses of investment of funds not immediately required..... | 304.16 | 55 |
| V. Utilization of funds | | 55 |
| B. Commitments obligations and expenditures | | 55 |
| Administration of appropriations | | 55 |
| Authority and responsibility | 305.3.1 | 55 |
| | 305.3.2 | 55 |
| Lending Operations Review Committee | 305.3.3 | 56 |
| | 305.3.4 | 56 |
| Policy, system and procedures..... | 305.3.5 | 56 |
| Criteria and considerations for lending operations of the Foundation | 305.3.6 | 57 |
| Loans and loans guaranteed by the Foundation | 305.3.7 | 57 |
| VI. Accounting | | 58 |
| Principal accounts | 306.1 | 58 |
| Responsibility for maintaining the accounts | 306.2 | 58 |
| Financial statements | 306.10 | 58 |

Financial Regulations and Rules of the United Nations

Note

The Financial Regulations of the United Nations and the Financial Rules of the United Nations (100 series Rules) shall govern the administration of the financial activities of all United Nations entities for which the Secretary-General has administrative responsibility, unless an exception or addition has been authorized by the General Assembly (for the Regulations) or by the Secretary-General of the United Nations (for the Rules). As the review of the Financial Rules progresses for the entities which currently have separate Rules, the exceptions or additions authorized for them will be promulgated by the Secretary-General as special annexes. The Regulations and Rules set forth in each of the annexes will carry a numbered series which codes it to the entity to which the annex applies and self-identifies the exception or addition to the normal United Nations financial regulation or rule.

Financial Regulations and Rules of the United Nations (series 100)

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)

Article I General provisions

Applicability and authority

Rule 301.1

The Financial Rules in this annex shall govern the financial management of the United Nations Habitat and Human Settlements Foundation (hereafter referred to as “the Foundation”) established by General Assembly resolution 3327 (XXIX) of 16 December 1974. These rules are promulgated pursuant to the Financial Regulations of the United Nations as they apply with respect to the Foundation. The Secretary-General hereby delegates authority and responsibility for the implementation of the Financial Regulations and Rules in this annex to the Executive Director of the United Nations Human Settlements Programme (UN-Habitat). The Executive Director may in turn delegate authority for specific aspects of these Financial Regulations and Rules to officials of the Foundation. These delegations of authority will state whether designated officials may further delegate this authority.

For any matter that is not specifically covered by the Rules in this annex, the relevant Financial Regulations and Rules of the United Nations shall, *mutatis mutandis*, apply.

Responsibility and accountability

Rule 301.2

In the cases where the Foundation entrusts implementation of projects or part thereof to bodies within or outside the United Nations system, the financial administration of allocations from the Foundation’s resources issued to them by the Executive Director pursuant to the regulations in this special annex shall be carried out under their respective financial regulations, rules, procedures and practices.

Definitions

Rule 301.3

For the purpose of this special annex:

(a) “Foundation” shall mean the United Nations Habitat and Human Settlements Foundation (UNHHSF);

(b) “Governing Council” shall mean the Governing Council of the United Nations Human Settlements Programme (UN-Habitat);

(c) “UN-Habitat” shall mean the United Nations Human Settlements Programme;

(d) “Government” shall mean the Government of any State that is eligible for membership in the Governing Council of UN-Habitat;

(e) “Executive Director” shall mean the Executive Director of the United Nations Human Settlements Programme, UN-Habitat;

(f) “Administrator” as referred to in the General Procedures Governing the Operations of the Foundation, adopted by the Governing Council in its decision 72 (IV) 1976 and amended by its decision 94 (V) 1977, shall mean the Administrator of the Foundation;

(g) “Programme budget” shall comprise the “programme of activities” and “programme support costs” as defined below;

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

(i) “Programme of activities” shall mean a plan of activities, including areas for projects in which the Foundation is to be involved, whether financed on a grant or reimbursable basis, or financed partially or wholly by the Foundation;

(j) “Programme support costs” shall mean the costs of administration and management of the programme of activities (including programme development and evaluation) and technical and administrative support of projects;

(k) “Loan Fund” shall mean the account into which resources are deposited specifically for the reimbursable seeding operations of the Foundation pursuant to UNHHSF regulation 1.1 from:

- The Foundation borrowing operations
- Voluntary contributions, other than voluntary contributions made to the General Fund by Governments, governmental agencies and intergovernmental organizations and other public or private entities;

(l) “Reimbursable seeding operations” shall mean the Foundation lending operations through provision, on a reimbursable basis, to eligible public and private institutions, with special emphasis on developing countries and countries with economies in transition, of seed capital, loan guarantees, including housing loan insurance, and equity investments to support mobilization and effective utilization of domestic financial resources for human settlements by local lending financial institutions, in particular housing finance and community-based savings and loan organizations and other institutions engaged in low-cost housing and slum upgrading programmes;

(m) “Loan agreement instrument” shall mean a loan agreement between the Foundation and an eligible recipient of its reimbursable seeding operations;

(n) “Foundation borrowing operations” shall mean, pursuant to UNHHSF regulation 1.2, borrowing from Governments and governmental agencies and intergovernmental organizations by the Foundation for its Loan Fund, defined above.

Article II

Budgets

A. Programme budget

Authority and responsibility

UNHHSF regulation 1.1

Under rules established by the Secretary-General, loans may be made from the resources of the United Nations Habitat and Human Settlements Foundation, including those borrowed pursuant to UNHHSF regulation 1.2, in implementation of the approved programmes of the Foundation.

Rule 302.1

(a) The Executive Director shall prepare, on a gross basis, for the Foundation’s anticipated voluntary contributions and extrabudgetary funds, a proposed programme budget for the financial period for both income and expenditures. It shall cover all anticipated programmes of activities, including reimbursable seeding operations of the Foundation, pursuant to UNHHSF regulation 1.1, and programme support costs of the Foundation. The format shall be consistent with relevant United Nations budgetary regulations, rules, policies and practices. The programme budget shall include provision for contingencies;

(b) The resources of the Foundation from voluntary contributions and extrabudgetary funds, after providing for the programme support costs and a General Financial Reserve, shall be utilized to the maximum extent possible for programme purposes;

(c) Projects under the Foundation reimbursable seeding operations funded from resources borrowed by the Foundation pursuant to UNHHSF regulation 1.2, shall be approved by the Executive Director taking into consideration the recommendations of the Lending Operations Review Committee referred to under rule 305.3.3 of this annex and with due regard to the provisions of rules 305.3.5 and 305.3.6 of this annex.

Presentation, content and methodology**Submission and approval of programme budget****Review and approval****Rule 302.2**

The portion of the proposed programme budget covering programme support costs shall be submitted to the Advisory Committee on Administrative and Budgetary Questions for examination and comment. Subsequently, the proposed programme budget and the comments of the Advisory Committee shall be submitted to the Governing Council for approval.

Revised and supplementary programme budget proposals, presentation and submission**Rule 302.5**

Supplementary programme budget proposals in respect of the current financial period, prepared in a form consistent with the programme budget, shall be submitted by the Executive Director to the Governing Council, together with the comments of the Advisory Committee on Administrative and Budgetary Questions on the programme support costs, in time for the opening of its regular session in the calendar year involved.

Resolutions with programme budget implications**Rule 302.6**

The Executive Director is responsible for preparing and presenting to the Governing Council a statement of programme budget implications required under rule 28 of the rules of procedure of the Governing Council with the comments of the Advisory Committee on Administrative and Budgetary Questions.

**Article III
Contributions and other income****C. Voluntary contributions, gifts and donations****Authority and liability****Rule 303.4**

(a) The Secretary-General hereby delegates to the Executive Director authority to accept voluntary contributions, gifts or donations to the General Fund referred to in rule 304.3.2 for purposes consistent with the policies, aims and objectives of the Foundation as they relate to technical and financial services, including lending operations pursuant to UNHHSF regulation 1.1 and principles consistent with those of the United Nations;

(b) Such contributions to the General Fund shall be accepted without limitations as to use for a specific project or

purpose. In respect of contributions other than from Governments, the Executive Director may permit exceptions to this rule and shall report thereon to the Governing Council provided that any such contributions shall be treated as trust funds or special accounts under regulation 3.12 of the United Nations Financial Regulations and Rules;

(c) Counterpart contributions in the form of agreed contributions in cash or in kind, which are made for the cost of specific services and facilities as set out in individual project documents, may be accepted by the Executive Director;

(d) The Executive Director may accept voluntary contributions, gifts or donations in such currencies as he/she deems to be required by the Foundation or readily convertible into usable currencies. The Executive Director may negotiate with contributors regarding convertibility or reconversion of voluntary contributions;

(e) Gifts or donations are to be defined and administered as voluntary contributions.

D. Miscellaneous income

Rule 303.6

All other income derived from the Foundation except:

(a) Contributions made by Governments and other donors as envisaged in rule 303.4 above or advance payments on account of such contributions;

(b) Direct refunds of expenditures of payments made during the same financial period; and

(c) Reimbursement of expenditures

shall be classified as miscellaneous income for the credit to the respective funds of the Foundation.

E. Receipts of funds

Receipt and deposit

Rule 303.8

(a) An official receipt shall be issued within two business days of receipt for all cash and negotiable instruments received;

(b) Only officials designated by the Under-Secretary-General for Management shall be authorized to issue official receipts. If other officials receive money intended for the Foundation, they must immediately convey this money to an official authorized to issue an official receipt;

(c) All moneys received shall be deposited in an official bank account of the Foundation within two days of receipt.

F. Foundation borrowing moneys

Foundation authority for external borrowing

UNHHSF regulation 1.2:

Under rules established by the Secretary-General, borrowings may be incurred for the reimbursable seeding operations of the United Nations Habitat and Human Settlements Foundation from Governments and governmental agencies and intergovernmental organizations provided that:

(a) The net borrowings outstanding at any time under this regulation shall not exceed limits established by the Secretary-General, with due regard to the maintenance of adequate reserves to secure such borrowings and to the proper functioning of the Foundation;

(b) The principal of any borrowings under this regulation and any interest or other charges thereon shall only be payable from the resources of the Foundation, and no lender shall have any claim against the United Nations or any of its other assets. Resources of the Foundation may be committed as security for the repayment of borrowings and the charges thereon. The Executive Director shall identify the resources which will be available for this purpose.

Rule 303.9

The Secretary-General hereby delegates, subject to the provisions set out below, authority to the Executive Director to incur, pursuant to UNHHSF regulation 1.2, borrowing from Governments and governmental agencies and intergovernmental organizations for the reimbursable seeding operations of the Foundation.

(a) The limits of the funds to be borrowed by the Foundation shall be set by the Secretary-General, from time to time, upon recommendation by the Executive Director and upon authorization by the Controller and with due regard to:

(i) The prospective resources requirements of the Foundation to attain its objectives and the amount of voluntary contributions received by the Foundation;

(ii) The degree of efficiency and effectiveness of the Foundation in managing Loan Fund operations from voluntary resources, as indicated in periodic evaluation and auditing reports;

(b) Funds obtained from borrowing shall be used by the Foundation only for reimbursable seeding operations and related administrative costs;

(c) Funds obtained from borrowing shall be credited to the Loan Fund of the Foundation established by the Executive Director under rule 304.3.2 (d) of this annex and shall be kept in a separate account from UN-Habitat and United Nations accounts;

(d) In incurring external borrowing for the Foundation, the Executive Director shall be responsible for ensuring that the Foundation maintains adequate resources in the Foundation Loan

Fund Reserve established under rule 304.3.2 (e) to secure, at all times, the liability arising from incurring such borrowing;

(e) Any other additional provisions and measures the Secretary-General may add, from time to time, to ensure the solvency of the Loan Fund of the Foundation and to enhance its capacity and ability to attain its objectives;

(f) In incurring external borrowing, the Foundation shall comply with competitive procedures set by the Secretary-General for this purpose.

Liability for borrowing incurred by the Foundation

Rule 303.10

Pursuant to UNHHSF regulation 1.2 (b), the repayment of borrowing under the regulation, including the principal amount and any interest or other charges therein, shall be made only from the resources of the Foundation, and not from the resources of UN-Habitat or of the United Nations, and no lender shall have any claim against UN-Habitat, the United Nations, or any of their assets. Only the resources of the Foundation, as identified by the Executive Director, may be committed as security for the repayment of borrowings and charges thereon. This limitation of liability will be stipulated in all borrowing documents.

Article IV Custody of funds

A. Internal accounts

Foundation funds

Authority and responsibility

Rule 304.3.1

The Executive Director shall, as provided for in rule 306.2 of this annex, maintain such accounts and records as are necessary to enable him/her to report to the Governing Council on the Foundation account.

Rule 304.3.2

The Executive Director, pursuant to rule 303.4 and rule 303.9 and with due regard to the provisions of rule 303.10 of this annex, shall establish the following:

(a) *General Fund* to account for voluntary contributions and payments thereof and miscellaneous incomes; and disbursements to finance the extrabudgetary component of the programme of UN-Habitat and the Foundation activities other than its reimbursable seeding operations;

(b) *General Financial Reserve* to ensure the financial liquidity of the Foundation General Fund established under rule 304.3.2 (a) above, to compensate for uneven cash flows and to

meet such other requirements of prudent management of the General Fund. The level of the reserve and its composition shall be determined from time to time by the Governing Council upon the recommendation of the Executive Director;

(c) *Trust Funds* of the Foundation to account for voluntary contributions received for specific programme and project activities; and disbursements to finance and to account for those activities;

(d) *Loan Fund* to account for:

(i) Voluntary contributions specifically for the Foundation's reimbursable seeding operations from Governments, governmental agencies and intergovernmental organizations and other public or private entities, as well as including resources from the General Fund that may be made available by the Governing Council for reimbursable seeding operations pursuant to UNHHSF regulation 1.1;

(ii) Moneys from borrowing incurred under rule 303.9 by the Foundation from Governments and governmental agencies and intergovernmental organizations pursuant to UNHHSF regulation 1.2 for its reimbursable seeding operations;

(e) *Loan Fund Reserve* shall be established by the Executive Director to provide and maintain security to those borrowings incurred by the Foundation and to maintain a sound cash flow situation in the Foundation Loan Fund. The resources of the Loan Fund Reserve shall come from allocations by the Governing Council upon recommendation by the Executive Director from: (i) the General Fund; (ii) the grant component in the Loan Fund; and (iii) the income from investment of the Loan Fund resources;

(f) *Other funds*, including trust funds, shall be established as needed by the Executive Director and shall be consistent with the purposes and objectives of the Foundation and consistent with the principles of the United Nations.

Rule 304.3.3

The Loan Fund account referred to in rule 304.3.2 (d) shall have the following credited to it:

(a) All borrowings and interest incurred under financial rule 303.9, grant contributions from Governments, governmental agencies and intergovernmental organizations and other public and private entities;

(b) Allocation of funds that may be authorized by the Governing Council, upon recommendation by the Executive Director, from the General Fund referred to in rule 304.3.2 (a) for reimbursable seeding operations;

(c) Earmarked contributions to the Loan Fund by Governments, governmental agencies and intergovernmental organizations and other public and private entities;

(d) All repayments of loans extended by the Foundation pursuant to UNHHSF regulation 1.1, including principal, interest and any other charges.

Rule 304.3.4

Interest earned and gains realized from the operations of the Loan Fund shall be only credited to the Loan Fund account. Conversely, all losses and interest payable as a result of the operations of the Loan Fund shall be charged only to the Loan Fund account.

Rule 304.3.5

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

Rule 304.6

The Secretary-General shall act as custodian of the Foundation funds and shall designate the bank accounts and the signatories of those bank accounts. The Secretary-General may delegate to the Executive Director such authority with respect to custody of the Foundation Loan Fund and its Reserve as would facilitate the efficient and effective management of the Foundation funds, and such delegated authority may be accepted by the Executive Director in writing.

C. Investments

Rule 304.12

The Under-Secretary-General for Management, on behalf of the Secretary-General, shall invest Foundation moneys, other than those of the Loan Fund and its Reserve that are not required for disbursements immediately, in a manner consistent with the practices of the Organization to minimize risks and ensure liquidity. The Executive Director shall consult the Under-Secretary-General for Management on how funds of the Loan Fund and its Reserve that are not required for disbursement immediately could best be invested and the provisions of rules 104.13 and 104.14 of the United Nations Financial Regulations and Rules shall apply to the investment of such funds.

Income from investment

Rule 304.15

(a) Income from the investment of funds, other than from the Loan Fund and its Reserve and other trust funds and special accounts, shall be classified as miscellaneous income and credited to the Foundation General Fund;

(b) Income from investments pertaining to trust funds and special accounts shall be credited to the trust fund or special account concerned;

(c) Income from the investment of funds from the Loan Fund or its Reserve shall be credited to the Loan Fund or its Reserve.

Losses of investment of funds not immediately required

Rule 304.16

(a) Any investment of funds not immediately required must be reported to the Under-Secretary-General for Management. The Under-Secretary-General for Management may authorize the writing-off of investment losses. A summary statement of investment losses, if any, shall be provided to the Board of Auditors within three months following the end of the financial period;

(b) Investment losses shall be borne by the fund, trust fund, reserve or special account from which the principal amounts were obtained.

Article V Utilization of funds

B. Commitments obligations and expenditures

Administration of appropriations

Authority and responsibility

Rule 305.3.1

The Executive Director shall have the authority to administer the Foundation Budget and to utilize its funds as planned and approved by the Governing Council, including for lending operations pursuant to UNHHSF regulation 1.1, in accordance with the United Nations Financial Regulations and Rules and this special annex for UNHHSF to the Financial Regulations and Rules of the United Nations.

Rule 305.3.2

(a) Within limits determined and for purposes specified by the Governing Council, the Executive Director may allocate funds to carry out the activities of the Foundation;

(b) Allocations by the Executive Director shall constitute a ceiling on commitments to be incurred in connection with the activities of the Foundation for which those allocations are issued;

(c) On completion of a project, the related allocation shall be brought into conformity with commitments recorded. Adjusted allocations will be issued covering all projects completed during each financial period;

(d) Allocations of funds for a financial period for programme support costs of the Foundation, when they are in excess of obligations incurred during that period, shall lapse at the end of that period.

Lending Operations Review Committee

Rule 305.3.3

Establishment, terms of reference and composition of the Committee:

(a) A standing committee shall be established by the Executive Director of 12 to 15 members appointed by the Executive Director to advise him/her on the administration and management of the Foundation Reimbursable Seeding Operations to enhance effectiveness and efficiency of the Foundation as a viable financial institution. The Controller of the United Nations will be an ex officio member of the committee. The committee shall be called the Lending Operations Review Committee and shall meet twice a year under the chairmanship of the Executive Director;

(b) The Executive Director shall seek, as part of the Operational Procedures and Guidelines of UNHHSF, the guidance of the Governing Council regarding the terms of reference of the Lending Operations Review Committee and the criteria for his/her appointment of its members.

Rule 305.3.4

The total amount outstanding at any time of reimbursable seeding operations shall not exceed the total amount of:

- Voluntary contributions for reimbursable seeding operations and borrowing incurred pursuant to rule 303.9;
- Plus surpluses realized on the Loan Fund operations;
- Less advances to the Loan Fund Reserve pursuant to rule 304.3.2 (e);
- Less transfers to the programme support costs sub-account pursuant to rule 302.1.

Policy, system and procedures

Rule 305.3.5

(a) The Executive Director shall, under policy guidance of the Governing Council, establish Operational Procedures and Guidelines in order to guide the operations of the Foundation, in particular reimbursable seeding operations, and determine from time to time:

- (i) The terms and conditions on which the Foundation may borrow with due regard to rule 303.9;
- (ii) Limits on the total value of each of the Foundation's (i) loans; (ii) loan guarantees; (iii) equity investments;
- (iii) Limits on the size of financial contribution to each project of the Foundation as grants, loans and loan guarantees and equity investments;
- (iv) The allocation of Loan Fund resources among types of financial products, i.e. what percentage shall be assigned for seed capital, loan guarantees; and equity investment;

- (v) The standards to be met by applicants for the Foundation reimbursable seeding operations;
 - (vi) The terms and conditions on which grants, loans, loan guarantees and equity investments may be made by the Foundation, including interest rate and other charges. Reimbursable seeding operations shall be governed by the loan agreement instrument referred to in rule 301.3 (m);
 - (vii) Policies for the sale of securities provided by the borrowers to the Foundation to private investors in order to revolve the Foundation's funds with due regard to rule 303.9;
- (b) The Executive Director shall report to the Secretary-General on his/her actions in the establishment and implementation of the policy, systems and procedures mentioned above.

Criteria and considerations for lending operations of the Foundation

Rule 305.3.6

In taking decisions pursuant to rule 305.3.5, the Executive Director shall, where relevant, take full account of:

- (a) Other sources of financing available for human settlements development on reasonable terms and conditions to Governments and other eligible institutions;
- (b) The degree of risk the Foundation might incur in providing financing in each particular case;
- (c) The cost of money to the Foundation in case of borrowed resources;
- (d) The cost of administering the Foundation in case of lending from borrowed funds;
- (e) The desirability of maintaining diversification in the Foundation investments;
- (f) The need to build up adequate levels of resources in both the Loan Fund Reserve and the General Fund Reserve.

Loans and loans guaranteed by the Foundation

Rule 305.3.7

In the case of loans or loans guaranteed made by the Foundation, the loan agreement instrument shall establish the terms and conditions for the loan or guarantee concerned, including those relating to security for the loan and guarantee payment of principal, interest and other charges, maturities and dates of payment in respect of the loan, or the fees and other charges on the guarantee, respectively.

Article VI Accounting

Principal accounts

Rule 306.1

Separate accounts to be maintained by the Foundation shall include:

- (a) A General Fund account and its reserve;
- (b) A Loan Fund account and its reserve;
- (c) A Trust Funds account;
- (d) A programme support costs account;
- (e) Such other accounts as may be required by the Secretary-General.

Responsibility for maintaining the accounts

Rule 306.2

The Executive Director is hereby designated as the official responsible for maintaining the records and accounts of the Foundation that are necessary to enable the Executive Director to report to the Governing Council, subject to such instructions as may be prescribed by the Secretary-General.

Financial statements

Rule 306.10

The Executive Director shall prepare and certify as correct the financial accounts and statements of the Foundation and shall submit them to the Board of Auditors at the times specified in rule 106.10 (a) of the United Nations Financial Regulations and Rules.

06-44823 (E) 050906

0644823

Annex III

GENERAL PROCEDURES GOVERNING THE OPERATIONS OF THE UNITED NATIONS HABITAT AND HUMAN SETTLEMENTS FOUNDATION AS ADOPTED BY THE GOVERNING COUNCIL OF UNEP IN GC DECISION 72(IV) 1976 AND AMMENDED BY GOVERNING COUNCIL DECISION 94(V) 1977

General Procedures

ARTICLE 1 – DEFINITIONS

Section A. Definitions

For the purposes of these general procedures, the following definitions shall apply:

- a) "Foundation" means the United Nations Habitat and Human Settlements Foundation.
- b) "Governing Council" means the Governing Council of UNEP (Now UN-HABITAT).
- c) "Government" means the Government of any State that is eligible for membership in the Governing Council;
- d) "Executive Director" means the Executive Director of UNEP (Now UN-HABITAT).
- e) "administrator" means the Administrator of the Foundation;
- f) "Project" means an activity separately identified within the programme of activities to be carried out for a specific purpose and a definite period of time;
- g) "Programme of activities" shall mean a plan of activities including areas for projects in which the Foundation is to be involved, whether financed partially or wholly by the Foundation, and including pre-programme activities;
- h) "Programme support costs" shall mean the costs of administration and management of the programme of activities, including programme development and evaluation, and technical and administrative support of projects.

ARTICLE II – OBJECTIVES

Section B. Primary operative objectives

The primary operative objective of the Foundation shall be to assist in strengthening national environmental programmes relating to human settlements, particularly in the developing countries, through the provision of seed capital and the extension of the necessary technical and financial assistance to permit an effective mobilization of domestic resources for human habitat and environmental design and improvement of human settlements, including:

- (a) Stimulating innovative approaches to pre-investment, pre-project and financing strategies of human settlements activities, while drawing on the accumulated practical experience of both the public and private sectors for mobilization of financial resources for human habitat and human settlements projects;
- (b) Organizing technical assistance services in human settlements and human habitat management, including training facilities and human habitat projects;
- (c) Promoting the adaptation and transfer of appropriate scientific and technical knowledge on human settlements projects.

ARTICLE III – ORGANS OF THE FOUNDATION

Section C. Governing Council and Executive Director

Under the authority and guidance of the Governing Council, the Executive Director shall be responsible for the general direction of the Foundation and for providing the necessary technical and financial services related to the Foundation. He shall be responsible to the Council for all phases and aspects of the operations and the financial resources of the Foundation.

Section D. The Administrator

1. The Administrator of the Foundation, who shall have the rank of Assistant Secret-General; shall be appointed by the Secretary General of the United Nations on the recommendation of the Executive Director.
2. The Administrator shall be responsible to the Executive Director for the operation and management of the Foundation and its resources.

Section E. The Advisory Board

1. The Executive Director shall appoint an Advisory Board of about fifteen members who will serve in their personal capacity and will be chosen on a broad geographical

basis. The Board shall meet under the chairmanship of the Executive Director. Members of the Board shall be appointed for a period of two years and may be subject to reappointment;

2. The Board shall advise the Executive Director and the Administrator on the operations of the Foundation.

ARTICLE IV – RESOURCES

Section F. Initial Funding

The Foundation is to receive, over a four-year period from 1 January 1975, an allocation of \$4,000,000 from the Fund of the United Nations Environment Programme.

Section G. Voluntary contributions

1. The resources of the Foundation shall be derived from voluntary contributions from Governments, from the United Nations bodies and other International and regional Institutions, as well as from private sources;
2. Voluntary contributions may be pledged any time either on an annual basis or, whenever possible, for a number of years;
3. The Executive Director shall from time to time at the request of the General Assembly and upon recommendation from the Governing Council of the United Nations Environment Programme (Now UN-HABITAT), convene pledging conferences at which Governments may announce their contributions to the Foundation.

Section H. Participation in the United Nations Development Programme

The Foundation may administer, as an executing agency, funds made available for projects by the United Nations Development Programme.

ARTICLE V – PROGRAMME ACTIVITIES

Section I – Preparation of the Programme

The Executive Director shall biennially prepare and submit to the Governing Council a programme of activities with estimates of resources and expenditures. This programme shall indicate in general terms the projects to be carried out during the period to which it relates.

Section J. Approval of the Programme

The Governing Council shall consider and approve the programme of activities, and shall allocate from the estimated resources of the Foundation funds to cover the following main categories of expenditures:

- (a) Projects;
- (b) Programme support costs.

ARTICLE VI – PROJECTS

Section K. Design of projects

1. The Executive Director, upon request from and in collaboration with the Governments concerned, shall formulate projects within the primary operative objective of the Foundation, in accordance with policy directives issued by the Governing Council pursuant to Section N. Projects may be of an operational or of a research, technical assistance, training or demonstrational character;
2. Projects may be designed to be carried out entirely by the Foundation, or in collaboration with other international or national agencies. In selecting such agencies particular attention shall be given to the capacity available within the United Nations system.

Section L. Project documents

1. For each project, a project document shall be drawn up describing all financial, technical, managerial and other resources required for the successful implementation of the project, and stating clearly the responsibility for providing these resources from the Foundation, from participating Governments and from other agencies;
2. The project document shall be agreed to by the Executive Director on behalf of the Foundation, and by the Governments and agencies concerned.

Section M. Approval of projects

Each project shall be approved by the Executive Director, except that approval of the Governing Council shall be required for projects that:

- (a) The governing Council has indicated it wishes to consider itself;
- (b) The Executive Director may, from time to time, submit to the Council for its consideration because of their policy implications or magnitude.

ARTICLE VII: ADMINISTRATION OF THE FOUNDATION

Section N. General policies

1. The Governing Council shall issue policy directives with a view to ensuring that the resources of the Foundation are utilized with maximum efficiency and effectiveness in pursuance of its primary operative objective;
2. The Executive Director shall establish programmes, guidelines and directives in connection with investments for the environmental design and improvement of the human habitat and settlements, in both urban and rural areas.

Section O. The staff of the Foundation

1. The staff of the Foundation shall be appointed for service specifically with the Foundation, by the Executive Director on the advice of the Appointment and Promotion Board of UNEP (Now UN-HABITAT).
2. The appointment of the staff of the Foundation shall be subject to the provisions of the Staff regulations and the Staff Rules of the United Nations.

Section P. Trust funds

In administering trust funds established within the framework of the Foundation, the Executive Director may establish sub-accounts to carry specific activities consistent with the purposes and operative objectives of the Foundations. Such accounts shall be maintained in accordance with the financial rules of the Foundation.

Section Q. Reports

The Executive Director shall submit annual, and as appropriate, special reports to the Governing Council indicating:

- (a) The status of the resources of the Foundation;
- (b) The execution of the programme of activities;
- (c) The approval and execution of all projects.

Section R. Co-operation with other agencies

The Foundation shall maintain close working contacts with other 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.
