



UN-HABITAT EVALUATION BRIEF

Evaluation of the Experimental Reimbursable Seeding Operations (ERSO) Evaluation Report 6/2011

1. INTRODUCTION AND BACKGROUND

The Experimental Reimbursable Seeding Operations (ERSO) Programme was designed and implemented in response to UN-Habitat Governing Council resolution 21/10 of April 2007 in order to increase sustainable financing for affordable and social housing and infrastructure for the urban poor. It was to run as a pilot and testing phase for four years from 2007 to 2011. The programme complements UN-Habitat's Slum Upgrading Facility (SUF) Programme and other innovative financing mechanisms such as the Water and Sanitation Trust Fund. What distinguishes ERSO is that it is a loan programme whereas other innovative financing arrangements are grants.

The loans provided to beneficiaries are reimbursed by the beneficiaries in the form of regular scheduled loan repayments. The authority to operate such a programme is derived from the rules and regulations of the Habitat and Human Settlements Foundation, the depository of voluntary general and earmarked contributions to UN-Habitat. The rules and regulations allow the Foundation to mobilize capital for low-income and infrastructure development and extend seed lending.

A trust fund was established for implementing the experimental lending activities and received donor contributions totalling USD 3.63 million. By early 2011, ERSO had extended five loans totalling USD 2.75 million to formal and community-based financial institutions in Nepal, Nicaragua, the Occupied Palestinian Territory, Tanzania, and Uganda.

The amount of investment leveraged by limited seed capital loans was estimated to reach over USD 500 million. By the time of the evaluation, there were loan repayments on four of the five loans and the repayment rate was 100 per cent.

The ERSO was implemented by a team of experienced international development finance specialists and guided by a detailed operations manual approved by the Steering and Monitoring Committee. During the end phase of the pilot period, the ERSO had attracted the attention of major international development financiers and discussions were under way for a sixth loan jointly with the International Finance Corporation of the World Bank Group and the Kreditanstalt für Wiederaufbau of Germany.

2. EVALUATION PROCESS AND METHODOLOGY

The Governing Council resolution 21/10 that established the ERSO programme, also requested an evaluation of the programme and a report to be submitted at the 23rd session of the Governing Council in 2011. The evaluation was conducted by an external consultant, Mr. Johan Hyltenstam, during the period of October 2010 to February 2011.

A variety of methods, including in-depth analysis of relevant documentation, interviews with key stakeholders and staff, a questionnaire, and field visits to UN-Habitat Headquarters and ERSO projects in selected countries were used. A risk analysis was also undertaken of the ERSO financial mechanisms during the pilot phase. The evaluation was guided by the five evaluation criteria of relevance, effectiveness, efficiency, sustainability and impact.

Limitations and constraints affecting the evaluation included inability to meet all the stakeholders, severe time limits, and lack of response from United Nations entities with similar programmes to the questionnaire. This made comparative analysis, as called for the evaluation's terms of reference, next to impossible. In addition, ERSO loans were only finalized in the first quarter of

2010, which made it difficult to assess their full developmental impact, especially as there was no accepted international standard for the type of lending for low-income housing and infrastructure in which ERSO was engaging.

3. MAIN FINDINGS

Overall, the evaluation found that the concept of ERSO programme was relevant and reached an underserved population. Most stakeholders also considered the programme successful with the given funding and human resources constraints.

The following are key findings:

- Concerns were raised about the governance of the ERSO Trust Fund. The role and independence of the Steering and Monitoring Committee were not clear.
- The start-up of the pilot phase of ERSO was not preceded by a detailed feasibility study, which meant that the implementation of the programme became a process of "learning by doing".
- Delays in the recruitment of senior staff with necessary financial expertise to supervise the lending programme resulted in a capacity gap. There were also delays in the finalization of the operations manual for ERSO due to numerous requests for revisions by members of the Steering and Monitoring Committee.
- The reasons for the inability of the ERSO to gain optimal efficiency were mostly internal due to challenges in staffing and resources, as well as the administrative burden of fitting a lending programme into existing United Nations financial procedures.
- During the pilot phase, UN-Habitat was able to gain substantial experience in building working

relations with multiple partners including local authorities, community organizations and financial institutions. This allowed ERSO to play a catalytic role in reaching out to underserved low-income markets in the five pilot countries. Loans were given to institutions in Nepal, Nicaragua, the Occupied Palestinian Territory, Uganda and Tanzania.

- Despite initial delays, significant progress had been made by the end of the pilot phase in integrating developmental efforts with financially sound banking practices to produce a solid investment track record and innovative financing structures. The ERSO loan portfolio was performing according to schedule and projects performing in line with best practice.
- The fundraising target of USD 15 million for the Trust Fund was not achieved. The programme received USD 3.63 million with the Government of Spain being the main contributor (79 per cent).
- The evaluation found that the indicators, formulated before the programme went into field operations, may have been ill-suited to measure the progress of an innovative financial lending programme.
- In terms of financial innovativeness, the programme evolved, experimenting with different mechanisms over the course of the pilot phase. It experimented with offering low interest loan rates to attract private sector partners to invest in low-income housing and community upgrading. It also experimented in new financial products (community and municipal loans) to bring basic infrastructure to low-income communities in Nicaragua, Uganda and Tanzania. In Nepal, credit and technical assistance was extended to 15 credit cooperatives through Habitat for Humanity to apply a 'save and build' methodology. A loan was made to the Palestinian Affordable Housing Foundation (SAKAN) to buy shares in the controlling company AMAL to kick-start a mortgage market for low-income housing with guarantees provided by the Overseas Private Investment Corporation.
- ERSO had potential to act as a catalyst for creating demand among financial institutions to partner with UN-Habitat for low-income housing finance. Being

a pilot programme, however, ERSO did not build the necessary administrative capacity to support such a loan programme.

4. LESSONS LEARNED

- Successful programmes to finance housing and urban development require that sufficient level of banking expertise is provided from the design stage.
- Experimentation with various forms of financing structures, flexible funding arrangements and diverse funding options can improve reach and effectiveness of lending programmes for low-income groups.
- Experimental lending programmes can gain from the lessons learned of global research on innovative and affordable low-income housing and infrastructure programmes and become a vehicle for wide dissemination, replication and up-scaling of housing and neighbourhood upgrading for the urban poor.
- Lending programmes to benefit the urban poor need to clearly define target beneficiary population in order to be able to measure outcomes of lending operations.
- A pre-pilot feasibility study on how to fit a lending programme into a traditional United Nations granting institution should have been conducted. It would have lessened the administrative burden and helped to identify possible obstacles for efficient implementation.

5. KEY RECOMMENDATIONS

- UN-Habitat should continue to support the ERSO programme because of its relevance. In order to improve the ERSO programme and move forward from a generally successful pilot phase, UN-Habitat should consider either up-scaling ERSO and expand the lending programme to between 20 to 50 projects amounting to some USD 20 million, or consider a more limited second round of experimental pilot-by-pilot concept lending.

- A review study should be conducted to assess whether a future operational UN-Habitat ERSO programme could best be implemented as an in-house or outsourced initiative. UN-Habitat should also facilitate the establishment of an international financial institution board to be chaired by the Executive Director of UN-Habitat.
- For a future ERSO programme, UN-Habitat should review innovative funding mechanisms and identify interested donors to ensure sustainable resources, define target groups for its lending operations, and analyse how to assess leveraging the impact of individual loans under the ERSO programme.
- UN-Habitat should explore future strategic partnership with United Nations Capital Development Fund (UNCDF) and engage UNCDF and the International Fund for Agricultural Development (IFAD) in discussions about technical partnerships and sharing of lending platforms.
- Together with other United Nations agencies, UN-Habitat should define what constitutes an 'innovative financial mechanism' in operational terms and identify UN-Habitat's niche in financial lending programmes.
- If it is impossible for UN-Habitat to enhance its commitment, it should at least explore possibilities to liaise with like-minded partners to share programme operating costs and seek donor support within the United Nations system or in a multi-donor scale facility partnership structure.
- UN-Habitat should consult with the United Nations Office at Nairobi on administrative support systems and agree on an appropriate timetable for installation of the required system.
- UN-Habitat should keep the programme on track by comparing ERSO programme methods on best practice with FinMark.