



UN-HABITAT

Resumed: Due diligence assessment of the Sustainable Human Settlements Foundation



Ad hoc working group on programmatic, budgetary and administrative matters
11 October 2023



What is SHSF?

The **Sustainable Human Settlements Foundation** is a not-for-profit foundation for the charitable purpose of direct financial support to UN-Habitat. The Foundation includes a regulated fund of funds in which donations are pooled in an endowment that will be invested for the benefit of UN-Habitat to fulfil unfunded or underfunded mandates.

External parties invest in SHSF, which in turn, maintains its own investment portfolio. A portion of the investment proceeds are to contributed to UN-Habitat.

Risk Oversight and Advisory Committee

Recommendation to proceed, with conditions



- ✓ Human rights
- ✓ Positive screening
- ✓ Negative screening
- ✓ Qualitative screening

Due diligence

Recommendation to proceed, subject to twelve provisions



- ✓ Deliberation of due diligence and reputational risk



Recommendation A

The contribution agreement will have an **initial duration of one year**, subject to extension. Breach of the contribution agreement, including these provisions, is grounds for termination of the agreement.

Response

The recommendation is **noted** by the Executive Director. Considering market conditions, the initial duration is preferred to be **ten years with a standard termination clause** of one month's notice.

Recommendation K

The contribution agreement is to include an **indemnity clause**.

Response

The recommendation is **accepted** by the Executive Director.

Option 1

The Executive Director has full authority to terminate the agreement at his or her discretion. This option is standard unless other directives are decided.

Standard unless other directives are decided.

Option 2

The Executive Director has authority to terminate the agreement only upon request by the Executive Board.

In line with governance on entry into the agreement.

Option 1

Either party has the right to terminate the agreement by giving notice within a defined number of days, e.g., 30 days.

Standard and without cause.

Option 2

Termination is permitted only if either party fails to fulfil any of its responsibilities under the agreement.

With cause, requiring evidence of material breach.



Option 1

A validity of ten years, with periodic reviews by the Executive Board on the performance of each party.

Longer term, with periodic reviews as opportunities to consider continuation.

Option 2

A validity of less than ten years, with periodic reviews of the performance of the parties by the Executive Board.

A term of less than five years can critically weaken its viability.

Option 1

The first periodic review in the first session of the Executive Board of 2025, with the subsequent review in the first session of the Executive Board of 2027, after three full years of operation, with further reviews every two or three years.

Less frequent reviews.

Option 2

The first periodic review in the first session of the Executive Board of 2025, with subsequent annual reviews in the first session of the Executive Board of each year.

More frequent reviews.

Standard clause

The Foundation [SHSF] shall indemnify, hold and save harmless, and defend at its own expense, UN-Habitat, its officials, agents and employees, from and against all suits, proceedings, claims, demands, losses and liability of any kind, including their costs and expenses, arising out of or omissions of the Foundation, or the Foundation's employees, officers, agents or sub-contractors, in the implementation of this Agreement. This provision shall extend, inter alia, to claims and liability in the nature of worker's compensation, products liability and liability arising out of the use of patented inventions or devices, copyrighted material or other intellectual property by the Foundation, its employees, officers, agents or sub-contractors. The obligations under this Article do not lapse upon termination of this Agreement.

Each party is protected from loss by the actions of the other party.

Recall that the purpose of the SHSF is to finance the under-funded and unfunded aspects of the strategic plan through sourcing **adequate and predictable core resources**.

A **longer-term agreement** enables longer-term investments that can deliver **higher returns** and **broaden the options** for more impactful investments, including those that are in line with the strategic plan and with the SDGs.

IFC. (2022). 2022 Annual Report: STEPPING UP IN A TIME OF UNCERTAINTY. Washington D.C.: International Finance Corporation.

World Bank. (2023). LONG-RUN RETURNS TO IMPACT INVESTING IN EMERGING MARKET AND DEVELOPING ECONOMIES. Washington DC.: World Bank.

The International Finance Corporation (IFC), a member of the World Bank Group that offers investment, advisory, and asset-management services to encourage private-sector development, favours longer-term investments. From its 2022 Annual report, IFC had USD 23.2 billion in Long-Term Finance Commitments (Own Account and Core Mobilization) compared to USD 9.7 billion in Short-term Finance Commitments (IFC, 2022). This has allowed the institution to outperform short-term investment money markets like the S&P 500. (World Bank, 2023)

IOSCO. (2014). Corporate Bond Markets: A Global Perspective. Madrid: International Organization of Securities Commissions.

IMF. (2017). IMF Working Paper: Understanding the Use of Long-term Finance in Developing Economies. Washington D.C.: International Monetary Fund.

While analysing the performance of bonds of varying maturity periods, longer-term bonds tend to offer higher yields to compensate investors for increased price volatility. (IOSCO, 2014)

The International Monetary Fund also notes that in the past twenty years, many countries have tried to foster long-term finance through the promotion of nonbank domestic institutional investors. This is because these investors have long investment horizons, which allow them to take advantage of long-term risk and illiquidity premiums to generate higher returns on their assets. (IMF, 2017)

United Nations, D. R. (2017). SOVEREIGN WEALTH FUNDS INVESTMENT IN SUSTAINABLE DEVELOPMENT SECTORS. New York: HIGH-LEVEL CONFERENCE ON FINANCING FOR DEVELOPMENT AND MEANS OF IMPLEMENTATION OF THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT.

OECD. (2011). OECD Discussion Note. Paris: EUROFI High-Level Seminar 2011.

It is argued that the most impactful investments that will support the SDGs are long-term investments made in the alternative private market asset classes such as infrastructure, housing, clean energy, agriculture, timber, venture capital and private equity. (United Nations, 2017)

The Organisation for Economic Co-operation and Development (OECD) promotes long-term investing as opposed to what it calls short-termism. (OECD, 2011)



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