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**Draft terms of reference of the funding window towards the need to
achieve the implementation of United Nations Habitat Assembly
resolutions in a balanced manner**

Background document to the ad hoc working group on programmatic, budgetary and administrative matters

I. Introduction

In its resolution 2/10 of 9 June 2023¹, the United Nations Habitat Assembly decided “to establish an urban action funding window within the United Nations Habitat and Human Settlements Foundation to attract and manage funds from donors to fund the implementation of resolutions adopted by the United Nations Habitat Assembly that lack adequate financing; such funds may be raised from, among other sources, non-earmarked contributions designated for this purpose, as well as unspent balances of earmarked project contributions, with the permission of the donor.”

The resolution further requests “the Executive Director, in consultation with the Executive Board, to develop the terms of reference of the funding window, noting the need to achieve the implementation of United Nations Habitat Assembly resolutions in a balanced manner.”

Finally, the resolution encourages “Member States with unspent earmarked contribution balances to consider redirecting those balances for the implementation of resolutions adopted by the United Nations Habitat Assembly.”

The ad hoc working group on programmatic, budgetary and administrative matters will be the consultative body in which the draft terms of reference will be developed. Following such consultation, the Executive Director will submit an in-session report on the draft terms of reference to the Executive Board for its consideration at its third session of 2023, in line with the provisional agenda of that session. When the Executive Board takes note of the terms of reference, such terms of reference will come into force. Any revision to the terms of reference will require the Executive Board to take note.

II. Key elements of the resolution

The name, structure, purpose, and sources of funding are defined in the resolution.

* HSP/EB.2023/10.

¹ [HSP/HA.2/Res.10](#)

A. Name and structure

The urban action funding window, heretofore in this document “the funding window”, is situated within the United Nations Habitat and Human Settlements Foundation, also known as the non-earmarked Foundation, heretofore in this document “the Foundation”.

B. Purpose

The purpose of the funding window is to fund the implementation of resolutions adopted by the United Nations Habitat Assembly that lack adequate financing, noting the need to implement resolutions in a balanced manner. The purpose is specific to resolutions of the United Nations Habitat Assembly.

To maintain distinction with the Foundation, whose mandate is to augment the regular budget for normative and core functions of a recurrent nature, it is recommended that the funding window fills requirements that are non-recurrent, or projectized, responsive to underfunded non-recurrent requirements to implement resolutions. While the scalability model of the Foundation incorporates certain core and recurrent requirements from resolutions, the funding window will fund requirements from resolutions that are non-recurrent and projectized.

C. Source of funding

Sources of funding will include donors with unspent earmarked contribution balances, also known as project balances. Such balances are unplanned, noting that earmarked contributions are always planned to be fully spent, without a remaining balance. However, when implementing projects, balances may arise due to requirements whose actual direct costs are lower than the planned costs; due to faster implementation than planned; due to earned interest; or due to foreign exchange gains.

Conversely, projects can also incur unplanned deficits due to requirements whose actual direct costs are more than planned; due to slower implementation than planned; or due to foreign exchange loss.

Projects are not planned to have either gains or losses, but either may occur, as budgets are based on assumptions that are different than the reality of implementing a project. Upon financial closure of a project, the account of a project may have both gains and losses. In the case of a net gain, i.e., unspent funds, the disposition of such balances is governed by the agreement with the donor, also known as the contribution agreement. In the case of a net loss, i.e., deficit, UN-Habitat is responsible to cover that loss.

The funding window may also receive funds from other sources, including contributions that are designated for this purpose.

III. Key elements of the draft terms of reference

The resolution is silent on resource mobilization, governance, and financial reporting of the funding window, all of which can be addressed in the terms of reference.

A. Resource mobilization

The terms of reference will direct the actions on resource mobilization. For future projects, the contribution agreement template can be revised to direct unspent funds to the funding window, with explicit reference to the resolution that established the funding window. When the donor accepts such terms, any project balance upon project closure will be automatically transferred to the funding window. Outreach and publicity activities can support to make the case to donors.

For existing projects, on a case-by-case basis, the signed contribution agreements may be amended, or written permission may otherwise be sought, to direct unspent funds to the funding window.

Recommendation

The terms of reference request the revision of the contribution agreement template in accordance with the resolution that established the funding window.

B. Governance

The resolution established a distinct funding window within the Foundation with a defined purpose and funding sources, and with a request to develop terms of reference. The resolution did not request such funds to be directly contributed to the Foundation.

The interpretation of this decision is that the funding window has a governance and treatment that is distinct from that of the Foundation, even though it is part of the Foundation. As such, the budget, revenue, expenses, and net assets of the funding window will be distinct from that of the Foundation. However, because the funding window is part of the Foundation, the existing authority on the Foundation will extend to the funding window.

Regarding such authority, there are options to consider. The terms of reference will state whether the Executive Board retains authority on the allocation of funds or decides to delegate that authority to a governance mechanism. If the Executive Board retains authority, then such allocation decisions will be on the provisional agenda of sessions of the Executive Board, who may request advice in the form of proposals from the ad hoc working group on programmatic, budgetary and administrative matters.

Whereas if the Executive Board delegates authority, the governance mechanism will have authority to make allocation decisions, reporting to the Executive Board. Such authority may be delegated to the ad hoc working group on programmatic, budgetary and administrative matters or may be in the form of a steering committee established by the Executive Board or may be delegated to the Executive Director.

Allocation decisions will be in defined amounts for defined activities to implement underfunded resolutions, with reference to the programme budget implications of each resolution, to the amount of funding already mobilized, and to any other considerations.

Option 1

The terms of reference state that the Executive Board retains authority on the allocation of funds from the funding window, with advice from the ad hoc working group on programmatic, budgetary and administrative matters.

Option 2

The terms of reference state that the Executive Board delegates authority on the allocation of funds from the funding window to the ad hoc working group on programmatic, budgetary and administrative matters, with the allocation decisions included in the regular report of the ad hoc working group to the Executive Board.

Option 3

The terms of reference state that the Executive Board delegates authority to a steering committee on the allocation of funds from the funding window, reporting to the Executive Board.

Option 4

The terms of reference state that the Executive Board delegates authority on the allocation of funds from the funding window to the Executive Director, with the allocation decisions reported regularly to the Executive Board. In this option, the Executive Director may establish an internal steering committee to support the decision-making process.

C. Financial reporting

The terms of reference will determine additional financial reporting requirements, if any. Given that the funding window is part of the Foundation, the funding window may follow the same reporting requirements as the Foundation, as a separate funding segment in regular financial reports to the Executive Board and in the audited financial statements.

Recommendation

The terms of reference request the financial reporting of the funding window to follow the same requirements as that of the Foundation.
