



**Executive Board of the United Nations
Human Settlements Programme
Second session of 2022
Nairobi, 21–23 November 2022
Item 16 of the provisional agenda*
Other matters**

Update on the Sustainable Human Settlements Foundation

Report of the Executive Director

I. Introduction

1. At the second session of the Executive Board Meeting in 2019, the Executive Board called upon the Executive Director to find new ways to finance UN-Habitat's mandate including developing a resource mobilisation strategy focusing on, among others, the private sector. Whilst private sector giving is almost exclusively earmarked, there are models whereby philanthropic giving was received by the UN-Secretariat including from Ted Turner (Turner Foundation). The main challenge was to find an innovative way to go beyond one-time giving and instead to leverage on UN-Habitat's partnership with the private sector to develop a modality of raising funds through an endowment based on a capital preservation model. The experience of Yayasan Hasanah, the corporate responsibility arm of Khazanah Nasional, the investment-holding arm of the Malaysian Government provided one such model. Based upon a USD 1 billion endowment, the capital was reinvested by Khazanah to generate an income of USD 30 million per-annum to support its education, environmental, social and urban regeneration initiatives.

2. The Executive Director together with Abu Dhabi Global Markets invited sovereign fund managers, family offices and investment banks to a round-table discussion on the sidelines of the 10th session of the World Urban Forum to discuss the possibilities of financing the mandate of UN-Habitat including the feasibility of setting up such an endowment. This capital preservation endowment model will generate stable and consistent returns to supplement the funding needs of UN-Habitat, especially with regards to its foundation non-earmarked fund, which continues to be under-funded. This objective became a joint Abu Dhabi Declared Action by UN-Habitat and Mr. Grant Rogan, the principal of Blenheim Ptd. Ltd.

3. In the second session of the Executive Board Meeting in 2020, the Executive Director updated the Executive Board that UN-Habitat was exploring the feasibility of setting up such an endowment. In June of the same year, a non-binding Letter of Intent was signed between UN-Habitat and Blenheim Ptd. Ltd that allowed for a feasibility study to be carried at no cost to UN-Habitat. Subsequently, an MOU was signed between UN-Habitat and Blenheim to allow for the setting up of the SHSF on a no liability basis to UN-Habitat.

4. From an internal governance process, both the LOI and the MOU was reviewed and developed by the UN-Habitat Legal Unit. The Executive Director also presented the concept to the Controller and

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the Office of Legal Affairs (OLA). In these meetings, Mr. Rogan was given the opportunity to explain the workings of the SHSF. As a third-party private sector initiative, the SHSF is registered as a charity in Jersey with tax exemption status in both England and the United States.

5. In the first session of the Executive Board in 2021, Mr. Rogan representing SHSF had the opportunity to make a statement at the Executive Board. On 1 November 2021, the Secretariat presented the concept of the SHSF to the Geneva Group of Donor Countries.

6. Finally, a Contribution Agreement, developed with the advisory of the UN Office of Legal Advisor, will be signed at the 2nd Session of the UN-Habitat Executive Board to allow for a for a first donation to be received in 2023.

II. Goals & Objectives

7. The SHSF is a third-party private sector-led charitable foundation established to provide a transparent structure in which to pool donations that will form an endowment-type fund, which is to be professionally invested to generate consistent annuity returns for the benefit of UN-Habitat, the principal beneficiary.

8. In particular, the aim is to provide perpetual financial support of UN-Habitat's "unfunded programme", allowing UN-Habitat to meet the objectives of its rolling Strategic Plan, which is currently focused in the areas of:

- Reducing spatial inequality and poverty in communities across the urban-rural continuum;
- Enhancing shared prosperity of cities and regions;
- Strengthening climate action and improving urban environment;
- Effective urban crisis prevention and response; and
- Integrating the social inclusion dimensions including human rights, gender, children, youth and older persons, and disability.

III. Business Management Structure

9. The Foundation is to be managed by a Council composed initially of representatives of the Founder and the qualifying member. Blenheim Capital Partners Limited will also act as the Guardian of the Foundation. Fiduchi shall act as the Qualified Member as required under the Foundations (Jersey) Law, 2009

10. The Foundation will be entering into a Services Agreement with Blenheim Capital Partners Limited. Blenheim will provide support with the design, establishment, structuring, sourcing of funding and management of the Foundation; facilitating the commitment to a dedicated US\$1bn Charitable Foundation to provide on-going funding in support of UN Habitat in delivering its mandate in support of the United Nations Sustainable Development Goals (SDGs) and such other objectives as UN-Habitat may be tasked with from time to time by the United Nations Secretary General and Member States, in partnership and under the auspices and guidance of the Office of the Executive Director UN Habitat.

11. The Foundation Council may invite additional suitable individuals and organisations to become members of the Foundation Council in furthering its objectives by lending to the Foundation advice and counsel. The Foundation Council shall as well look to appoint other individuals and organisations as Ambassadors and Advisors to the Foundation in furthering its goals and objectives.

12. The Foundation will adopt regulations that set out how it will operate and ensure effective on-going governance adhering to best practice.

IV. Fundraising

13. **Donor model** - The donor model is considered "non-traditional", in that annual donations will not necessarily be sought from parties rather, amounts donated will be perpetually invested to generate the required funding support that UNH requires. The model is designed to be self-sufficient and supporting, as donations will be invested and expected to produce continual returns that can be utilised to generate ongoing funding. It is expected that this model will be particularly attractive to UN member states, who can then donate on a 'fire and forget' basis as opposed to being faced with continual requests for ongoing funding of UN-Habitat's programmes Foundation will adopt regulations that set out how it will operate and ensure effective ongoing governance adhering to best practice.

14. **Fundraising goals** - The fundraising goal of the Foundation is a three-phased approach designed to, ultimately, provide for a well-endowed perpetual structure managing some US\$1 billion of donations. The objective of these efforts is to see a three phased approach to raising the funding:

- Phase 1 - funding of US\$15m to be raised over the next 9-12 months (2022/3)
 - Phase 2 – funding of US\$50m within 24 months of the establishment of the Foundation (2023); and in parallel
 - Phase 3 - funding of US\$1bn goal being accomplished in the next 5 to 7 years (2026-28).
- It is anticipated that the funding target can be attained within less than 10 years.

15. The funds will be invested with suitably qualified Investment Managers, who will have mandates to make investments focused on capital preservation and stability of income. The target returns to be achieved from the investments will be at least 2.5% annually of the invested funds held. All investments made will be required to comply with the UN's Sustainable Development Goals (SDGs).

16. This will allow annuity support of the UN's SDGs and a structure designed to provide for annual disbursements by way of donations to the UNH in support of its "unfunded and underfunded" agenda.

17. In addition, grants and direct funding will be possible to support outreach programmes dealing with the study and implementation of the "New Urban Agenda"; scholarships, work study and educational programmes under the auspices of the Foundation's theme "One Planet One Home".

18. The Foundation is seeking a "core donor" who will donate an initial US\$5m to allow the structure to be fully implemented. This donor will be seen as a "founder" or founding supporter. The additional amounts raised in this initial period will be donated to UNH for their programme.

19. From phase 2 fundraising, donations will be effected which will see further similar amounts paid to UNH each year. Thereafter 2.5% or a minimum of US\$5m of funds invested will be utilised annually to support UNH in its programme.

V. Partnership with Lloyd's Bank

20. **A. Bond Issuance:** Recent negotiations with the Lloyds Bank have resulted into two outcomes. First is the agreement for SHSF to issue a USD 1 billion, 10-year hybrid bond of which will be issued by the Lloyds Bank and managed/invested on behalf of SHSF by Cazenove. The Bond is being readied for a 'roadshow' for presentations to investors and Member States. SHSF will be ready to make virtual presentations to the Member States in the run up to the Executive Board. The aim would be to secure the endorsement and register interest from the Member States who wish to invest at the Second Session of the Executive Board of UN-Habitat that will be held from 21 to 23 November 2022. SHSF is also prepared to make a presentation during the session.

21. **B. Other sources of Funds:** A verbal commitment of USD 5.1 million has already been secured to make a direct donation to SHSF from the Crypto Valley Venture Capital (CVVC), based in Switzerland. This disbursement of this funding to SHSF is expected to be made by the first quarter of 2023. SHSF is also in negotiations to receive contributions from other sources - governments, family offices, charitable organisations and philanthropies.

22. Both SHSF and Lloyds feel confident on its success. It is to be pitched to governments to buy the bond with a yield back to themselves and the difference to be treated as a contribution to UN-Habitat. Other institutions and foundations may do the same. Some governments may elect to donate to SHSF instead of participating in the bond issuance. Such donations will be used to buy the bond with the annual dividend being applied 100% to support SHSF / UNH.

VI. Expenditure

23. The expenditure will fall into three main categories, namely:-

- Fundraising, including support and marketing
- Administration
- Governance including audit, legal, professional and regulatory costs

24. SHSF's Council has determined a budget of US\$5m as the initial costs to put the structure in place, including formation, governance structure, administration, as well as to initiate the fundraising activities, building a team to do so through Blenheim. This amount is expected to support the Foundation and its activities for at least the first 3 years.

25. Fiduchi will provide its services in accordance with the letter of engagement entered into between it and the Foundation. The Investment Managers will be paid agreed fund / investment management fees from the funds under management, pursuant to agreed investment management mandates entered into.

26. There will be ongoing performance reviews to ensure that the pooled funds perform at least to benchmarks and that the appropriate investment yield is achieved. Such performance review will be undertaken by appointed professionals experienced in this area who will advise the Council.

27. Blenheim and other appointees to the Council will be repaid out of pocket expenses incurred including travel, subsistence etc. Further Blenheim will be paid fees for their support in raising fund-raising. The costs are not expected to exceed 3.7% of the donated funds and Mr. Rogan will not be receiving any compensation for his time & expertise.

28. In the future, the size of the Foundation may require the establishment of its own office and support team to be able to manage the activities of the Foundation including monitoring of projects supported by it that UN-Habitat undertakes so as to ensure transparency and delivery against the objectives.

29. Ultimately, the costs of the Foundation including fundraising are not expected to exceed 3.7% of the total funds obtained and invested. This way the Foundation will benefit from 96.3% of the donated funds, which will allow UNH to be supported in its programmes by the Foundation into perpetuity.

VII. Benefits to Donors

30. For Governments who are unable to receive an economic return it is a permanent contribution. In this case 100% of the economics realised will go to SHSF to support its commitment to UN-Habitat. Where the yield exceeds the 0.5% which SHSF retains it will be available to further support UNH.

31. For some donors they who would possibly seek a blended or hybrid participation in which case 3% will be retained by the Foundation (with 2.5% onward donated to UNH and 0.5% retained by the SHSF to primarily fund its proposed educational programme. The balance paid to the note holder (ie 3%). The intent is a fixed term where we roll over at a certain time-period for a further fixed period (ie 10/20/30year). The only difference in donor type is whether they will be participating on the basis of zero return or the blended form where they will receive an annual yield. If a donor wished to exit at maturity, it could do so but it would require SHSF to find an alternative party to fill the gap. Our obvious choice is a permanent endowment which rolls over from an investment / risk-reward perspective while still retaining the endowment. We are mindful some governments could “buy” the bonds issued as a treasury / aid instrument and require repayment at maturity for treasury / accounting purposes. This is possible. We would hope in such a situation that such government / donor would roll over their original participation for a further fixed term.

VIII. Oversight

32. As Lloyds are the Issuer the bonds will be marketed directly by Lloyds on behalf of the foundation. Regulatory governance will be primarily the U.K. Prudential Regulatory Agency and the Financial Conduct Authority. Funds invested will be managed by Cazenove who are similarly authorised and regulated. The dividend received will be paid to the bond holder less the contribution payable to SHSF. Full reporting on quarterly basis will be issued by Cazenove to SHSF and bond holders. SHSF will in turn provide to UNH a copy of such reports. SHSF will be looking to invite member states who contribute to sit on the foundation advisory board as well as the investment subcommittee of the foundation board of trustees.

IX. Contribution Agreement

33. The Office of Legal Affairs, of the United Nations provided the agreed draft for the Contribution Agreement. The pending item on this is the receipt of the first donation to SHSF from CVVC, after which the Agreement will be signed by SHSF on one hand and UN-Habitat on the other. This is expected to be done before the Second Session of the Executive Board of UN-Habitat that will be held from 21 to 23 November 2022.

X. Summary

34. At the time of writing (6 Nov 2022), the Contribution Agreement that was cleared by the UN Office of Legal Affairs and UN-Habitat's Legal Unit was shared with SHSF. We expect the Contribution Agreement to be ready by the time of the second Executive Board Meeting.

35. The Executive Director has also agreed to include any donation received from SHSF will be included in the Foundation non-earmarked trust fund. For accounting purposes, the contribution will have a separate code number to enable transparency and reporting by UN-Habitat to the SHSF. Oversight of the management of the funds shall be with the Executive Board.

36. The Executive Director also agreed with the SHSF that core functions of the organisation including administration and project management functions should not be funded by the SHSF as this will defeat the main goals of this third-party private sector endowment, which is to support the implementation of UN-Habitat's mandate particularly in standing up its field architecture in support of the Secretary-General's reforms and the Executive Director's priorities.