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R2017-0130/1

May 25, 2017

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**Closing Date: Wednesday, June 14, 2017  
at 6 p.m.**

FROM: Vice President and Corporate Secretary

**Mexico - Improving Access to Affordable Housing Project**

Attached is the Project Appraisal Document regarding a proposed loan to Mexico for the Improving Access to Affordable Housing Project (R2017-0130), which is being processed on an absence-of-objection basis.

Distribution:

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President

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Vice Presidents, Bank, IFC and MIGA

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Report No: PAD2013

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$100 MILLION

TO THE

UNITED MEXICAN STATES

FOR AN

IMPROVING ACCESS TO AFFORDABLE HOUSING PROJECT

May 23, 2017

Social, Urban, Rural and Resilience Global Practice  
Latin America and Caribbean Region

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**CURRENCY EQUIVALENTS**  
(Exchange Rate Effective April 1, 2017)

Currency Unit = Mexican pesos (MXN)

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MXN 18.72 = US\$ 1

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US\$ 0.053 = MXN 1

**FISCAL YEAR**  
January 1 - December 31

Regional Vice President: Jorge Familiar

Country Director: Gerardo M. Corrochano

Senior Global Practice Director: Ede Jorge Ijjasz-Vasquez

Practice Manager: Ming Zhang

Task Team Leader(s): Angelica Nunez del Campo

## ABBREVIATIONS AND ACRONYMS

ASF	Federal Supreme Audit Institution ( <i>Auditoría Superior de la Federación</i> )
APV	Social Housing Builder ( <i>Agencia Productora de Vivienda</i> )
CDI	National Commission for the Development of Indigenous Peoples ( <i>Comisión Nacional para el Desarrollo de los Pueblos Indígenas</i> )
CONAVI	National Housing Commission ( <i>Comisión Nacional de Vivienda</i> )
EE	Executing Entity ( <i>Entidad Ejecutora</i> )
ESMF	Environmental and Social Management Framework
FM	Financial Management
FOVISSTE	Housing Fund of the Institute of Social Security and Services of Government Employees ( <i>Fondo de la Vivienda del Instituto de Seguridad Social y Servicios Sociales de los Trabajadores del Estado</i> )
GDP	Gross Domestic Product
GHG	Greenhouse Gas
IEG	Independent Evaluation Group
INEGI	National Institute for Geography and Statistics ( <i>Instituto Nacional de Estadística y Geografía</i> )
INFONAVIT	National Workers' Housing Fund Institute ( <i>Instituto del Fondo Nacional de la Vivienda para los Trabajadores</i> )
IPP	Indigenous Peoples Plan
ISSFAM	Social Security Institute for Mexican Armed Forces ( <i>Instituto de Seguridad Social para las Fuerzas Armadas Mexicanas</i> )
MW	Monthly Minimum Wages
NAFIN	Mexican Development Bank ( <i>Nacional Financiera S.N.C., I.B.D.</i> )
OEO	Works Executing Agency ( <i>Organismo Ejecutor de Obra</i> )
OIC	Internal Control Unit ( <i>Organismo Interno de Control</i> )
OREVIS	State-level Housing Institutions ( <i>Organismos Estatales de Vivienda</i> )
PAU	Zones of Influence ( <i>Polígonos de Actuación Urbana</i> )
PDO	Project Development Objective
PDU	Municipal Development Plan ( <i>Plan de Desarrollo Municipal</i> )
PM	Master Plan ( <i>Plan Maestro</i> )
PPDU	Partial Urban Development Plans ( <i>Programas Parciales de Desarrollo Urbano</i> )
RAS	Reimbursable Advisory Services
RUV	Housing Registry ( <i>Registro Único de Vivienda</i> )
SA	Social Assessment
SEDATU	Ministry for Agrarian, Territorial, and Urban Development ( <i>Secretaría de Desarrollo Agrario, Territorial y Urbano</i> )
SFP	Ministry of Public Affairs ( <i>Secretaría de la Función Pública</i> )
SHCP	Ministry of Finance and Public Credit ( <i>Secretaría de Hacienda y Crédito Público</i> )
SHF	Federal Mortgage Society ( <i>Sociedad Hipotecaria Federal</i> )
SORT	Systematic Operations Risk Rating Tool
UMA	Unit of Measurement and Adjustment ( <i>Unidad de Medida y Actualización</i> )



**BASIC INFORMATION**

Is this a regionally tagged project? No	Country(ies)	Financing Instrument Investment Project Financing
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- Situations of Urgent Need of Assistance or Capacity Constraints
- Financial Intermediaries
- Series of Projects

Approval Date 14-Jun-2017	Closing Date 31-May-2021	Environmental Assessment Category B - Partial Assessment
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Bank/IFC Collaboration No
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**Proposed Development Objective(s)**

The Project's development objective is to increase access to affordable housing for low-income beneficiaries.

**Components**

Component Name	Cost (US\$, millions)
Acquisition of Housing Units	48.75
Self-production of Housing Units	50.00
Strengthening Urban Management	1.00

**Organizations**

Borrower : United Mexican States  
Implementing Agency : CONAVI



**PROJECT FINANCING DATA (IN USD MILLION)**

<input type="checkbox"/> Counterpart Funding	<input checked="" type="checkbox"/> IBRD	<input type="checkbox"/> IDA Credit <input type="checkbox"/> Crisis Response Window <input type="checkbox"/> Regional Projects Window	<input type="checkbox"/> IDA Grant <input type="checkbox"/> Crisis Response Window <input type="checkbox"/> Regional Projects Window	<input type="checkbox"/> Trust Funds	<input type="checkbox"/> Parallel Financing
Total Project Cost: 100.00		Total Financing: 100.00 Of Which Bank Financing (IBRD/IDA): 100.00		Financing Gap: 0.00	

**Financing (in US\$, millions)**

Financing Source	Amount
International Bank for Reconstruction and Development	100.00
<b>Total</b>	<b>100.00</b>

**Expected Disbursements (in US\$, millions)**

Fiscal Year	2017	2018	2019	2020	2021
Annual	0.00	7.61	15.38	32.63	44.38
Cumulative	0.00	7.61	22.99	55.62	100.00



**INSTITUTIONAL DATA**

**Practice Area (Lead)**

Social, Urban, Rural and Resilience Global Practice

**Contributing Practice Areas**

Finance & Markets

**Gender Tag**

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

**SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)**

**Risk Category**

**Rating**

1. Political and Governance

● Moderate

2. Macroeconomic

● Moderate

3. Sector Strategies and Policies

● Low

4. Technical Design of Project or Program

● Low

5. Institutional Capacity for Implementation and Sustainability

● Low

6. Fiduciary

● Substantial

7. Environment and Social

● Low

8. Stakeholders

● Low

9. Other

10. Overall

● Moderate



**COMPLIANCE**

**Policy**

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

**Safeguard Policies Triggered by the Project**

**Yes**

**No**

Environmental Assessment OP/BP 4.01

✓

Natural Habitats OP/BP 4.04

✓

Forests OP/BP 4.36

✓

Pest Management OP 4.09

✓

Physical Cultural Resources OP/BP 4.11

✓

Indigenous Peoples OP/BP 4.10

✓

Involuntary Resettlement OP/BP 4.12

✓

Safety of Dams OP/BP 4.37

✓

Projects on International Waterways OP/BP 7.50

✓

Projects in Disputed Areas OP/BP 7.60

✓

**Legal Covenants**

Sections and Description

Section I.D.2 (a) of Schedule 2 to the LA:

Prior to the carrying out of any activity under Parts 1 and 2 of the Project, the Borrower shall ensure that CONAVI shall issue a notice (Oficio) acceptable to the Bank, which Oficio shall provide, inter alia, that: (a) any Executing Entity participating in the Project shall comply and ensure compliance with the transparency and governance provisions referred to in Section I. D.1 of the Loan Agreement; and (b) upon deposit of the Direct Support(s) by CONAVI in the relevant Executing Entity’s account, such deposit shall be interpreted as an acceptance of the Oficio’s transparency and governance provisions

Sections and Description

Section I.E of Schedule 2 to the LA:



The Borrower, through CONAVI, shall: (a) carry out the Project in accordance with the ESMF and the IPP; and (b) cause each Executing Entity to: (i) carry out Part 1 of the Project in accordance with the ESMF and the IPP; and (ii) ensure that the OEOs shall carry out the activities under Part 2 of the Project in accordance with the ESMF and the IPP. Except as otherwise agreed by the Bank, the Borrower, through CONAVI, shall not amend, abrogate, waive, or fail to enforce the ESMF and IPP or any of their provisions.

Sections and Description

Section I.C.1 of Schedule 2 to the LA:

For purposes of carrying out the Project, the Borrower, through SHCP and CONAVI (in its capacity as the Project implementing entity), shall enter into a contract (Contrato de Mandato) with NAFIN, satisfactory to the Bank.

**Conditions**

Type  
Effectiveness

Description  
Section 5.01 of the LA: Contrato de Mandato

the Contrato de Mandato has been duly executed by the parties thereto

Type  
Effectiveness

Description  
Section 5.01 of the LA: Contrato de Mandato

(a) the Borrower (through SHCP and CONAVI), have issued two separate legal opinions –one for SHCP and one for CONAVI-satisfactory to the Bank, by the Borrower and CONAVI’s counsel acceptable to the Bank respectively- indicating that the Contrato de Mandato has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower (through SHCP and CONAVI), and is legally binding upon the Borrower and CONAVI in accordance with the Contrato de Mandato’s terms; and

(b) NAFIN has issued a legal opinion satisfactory to the Bank, by NAFIN’s counsel satisfactory to the Bank, indicating that the Contrato de Mandato has been duly authorized or ratified by, and executed and delivered on behalf of, NAFIN, and is legally binding upon NAFIN in accordance with the Contrato de Mandato’s terms.

**PROJECT TEAM****Bank Staff**

<b>Name</b>	<b>Role</b>	<b>Specialization</b>	<b>Unit</b>
Angelica Nunez del Campo	Team Leader(ADM Responsible)	Senior Operations Officer	OPSPQ
Gabriel Penaloza	Procurement Specialist(ADM Responsible)	Procurement Specialist	GGO04
Daniel Chalupowicz	Financial Management Specialist	Financial Management Specialist	GGO22
Arelija Jacive Lopez Castaneda	Safeguards Specialist	Social Specialist	GSU04
David Mason	Team Member	Urban Specialist	GSU10
Elena Segura Labadia	Counsel	Senior Counsel	LEGLE
Fabio Pittaluga	Team Member	Social Specialist	GSU04
Felipe Targa Rodriguez	Team Member	Transport Specialist	GTI04
Horacio Cristian Terraza	Team Member	Lead Urban Specialist	GSU10
Jose C. Janeiro	Window Manager	Senior Finance Officer	WFALA
Michael J. Darr	Safeguards Specialist	Environmental Specialist	GEN04
Nadya Selene Alencastro Larios	Team Member	Environmental Specialist	GSU10
Nancy Lozano Gracia	Team Member	Senior Economist	GSU10
Ondina Francisca Rocca	Team Member	Urban Specialist	GSU10
Oscar Anil Ishizawa Escudero	Team Member	Disaster Risk Management Specialist	GSU10
Vanessa Alexandra Velasco Bernal	Team Member	Urban Specialist	GSU10

**Extended Team**

<b>Name</b>	<b>Title</b>	<b>Organization</b>	<b>Location</b>
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MEXICO  
IMPROVING ACCESS TO AFFORDABLE HOUSING PROJECT

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## I. STRATEGIC CONTEXT

### A. Country Context

- 1. Mexico has managed to preserve its economic and financial stability amid adverse external shocks using monetary and fiscal policy responses.** The Mexican economy continues to face a complex external environment in which persistently low oil prices, a normalization of the U.S. monetary policy, a slowdown in global trade and economic growth, and a diversity of geopolitical events may heighten risk aversion and financial volatility, which in turn are posing challenges to the country's economic and financial stability and growth outlook. Policy priorities remain focused on prudent monetary, financial, and fiscal policies to create the conditions for stronger growth in the medium term.
- 2. An economic slowdown is expected in the near term as uncertainty with respect to the future of U.S.-Mexico trade relations is holding back gross fixed investment.** Economic growth is expected to fall to about 1.8 percent in 2017, recovering to 2.2 percent in 2018.<sup>1</sup> Uncertainty with respect to the scope of a renegotiation of the North American Free Trade Agreement is already having a negative impact on the Mexican economy through a possible reduction in private investments. Additional currency weakness and possible non-linear effects in the pass-through of currency depreciation to inflation led to a strong monetary policy response raising the overnight interest rate by a total of 375 basis points over the past 17 months, to 6.75 percent by March 2017, with a much more modest impact on longer term rates. The ability of the public sector to contribute to growth is constrained by the need for fiscal consolidation and for stabilizing the public debt-to-GDP ratio.
- 3. Poverty reduction has been uneven.**<sup>2</sup> Monetary poverty in Mexico has not improved for the last 20 years. Non-monetary poverty, on the other hand, has shown an improvement because of a reduction in social deprivations, since 1990. Today, 46 percent of the population (55.3 million persons), is considered poor (below the minimum income line and with at least one deprivation) and 9.5 percent is in extreme poverty (with income below the minimum monetary well-being line and with three or more non-income deprivations).
- 4. The housing sector is key for poverty reduction and economic growth.** In 2012, the housing sector accounted for 5.9 percent of the gross domestic product (GDP) (14.1 percent if imputed rents are considered) and generated 3 million jobs (7.3 percent of the total).<sup>3</sup> Increasing access to housing (or improving housing conditions) in urban areas contributes to reducing multi-dimensional poverty, which is highly concentrated in cities (in 2010, two-thirds of Mexico's poor people lived in urban areas). Specifically, two of the six non-monetary poverty dimensions are related to housing. Housing is also

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<sup>1</sup> World Bank Global Economic Prospects June 2017

<sup>2</sup> Mexico measures poverty through a multidimensional approach—both in terms of monetary (income) and nonmonetary (social deprivation) indicators. The six social deprivations are educational gap; access to health care; access to social security; quality and room in the dwelling; basic services in the dwelling; and food security. This section draws significantly from: “Is Mexico on the Path to Shared Prosperity?” (Cadena K., K. Scott and E. Tiongson) in L. Cord, M. E. Genoni and C. Rodríguez-Castelán (eds.) *Shared Prosperity and Poverty Eradication in Latin America and the Caribbean*, The World Bank, Washington D.C., 2015.

<sup>3</sup> Imputed rent is the standard international methodology for estimation of the contribution. As a reference, using this methodology, Spain and France are 18.5 percent and 22.5 percent of GDP, respectively.



indirectly related to poverty alleviation with regard to its effect on the household's ability to generate income (through rental or self-employment, which increase disposable income); its impact on public health outcomes (research shows direct benefits from improved housing on prevalence of respiratory and gastrointestinal diseases in children); and on access to health care and social services (determined by location).<sup>4</sup>

## B. Sectoral and Institutional Context

5. **The housing deficit in Mexico remains high despite substantial increases in housing supply in recent years.**<sup>5</sup> From 2000 to 2014, the housing stock grew 43 percent to accommodate the increase in the number of households resulting from population growth and a decrease in household size.<sup>6</sup> Despite the 9 million additional housing units built during the period, the similarly large increase in the number of households means that the housing deficit in absolute numbers (as defined by the *rezago habitacional*) remained stable, at an estimated 9.7 million units (2014).<sup>7</sup> Across the country, 5.5 million units do not meet formal construction standards, mostly because of lack of access to basic services (qualitative deficit). The other 4.2 million units are characterized by overcrowding, are located in high risk-prone areas, or are in such poor condition that they require full replacement (quantitative deficit), indicating an unmet need for additional housing units. The combination of an increasing housing stock and a stable housing deficit resulted in a decline in the housing deficit as a share of the total stock from 37 percent to 29 percent during the same period, suggesting that the deficit is being gradually addressed. Moving forward, the current level of formal annual production will still need to increase by 70 percent to meet new demand and eliminate the quantitative deficit by 2030.<sup>8</sup>

6. **Affordability is the key constraint to access formal housing for half of the population.** Most Mexicans cannot afford the cheapest formal house produced by the market. This type of unit (known as *vivienda económica*) costs around MXN225,230 (about US\$17,000)<sup>9</sup> and is affordable for households

<sup>4</sup> Inter-American Development Bank. 2012. *Room for Development: Housing Markets in Latin America and the Caribbean*.

<sup>5</sup> This section draws extensively from a Housing Policy and Housing Finance Reimbursable Advisory Service [RAS] (P150380), which analyzed data spanning the period from 2007 to 2014.

<sup>6</sup> The number of households grew from 24 million to 33 million; and the average household size was reduced from 4.3 to 3.8 people per household.

<sup>7</sup> The housing deficit refers to the *rezago habitacional* as calculated by the Federal Mortgage Society (*Sociedad Hipotecaria Federal*, SHF) using data from the National Survey on Household Income and Expenses (*Encuesta Nacional de Ingresos y Gastos de Hogares*) from the National Statistics and Geography Institute (*Instituto Nacional de Estadística y Geografía*). It includes units with walls and/or roofs made of scrap material, board panels, bamboo, palm, reeds, or other impermanent material (qualitative deficit), or with overcrowding, meaning more than one household per dwelling unit (quantitative deficit).

<sup>8</sup> From 2015 to 2030, the number of households is expected to grow by one-third, adding 9.2 million new households in total. Just to meet new projected demand and to address current quantitative deficit, approximately 850,000 new units need to be built annually until 2030, compared to an average of less than 500,000 formal units built annually between 2007 and 2014.

<sup>9</sup> In 2014 U.S. dollars. Because of the steep depreciation of the Mexican peso with respect to the U.S. dollar over the past year (and the lag in adjustment of the official value of the minimum wages [MW]), the 2014 values in U.S. dollar are higher than the 2017 values.



earning around 3 MW per month or more.<sup>10</sup> Unfortunately, high land costs in urban areas mean that this typology represents only 13 percent of the total units formally produced. More than half of all the formal units produced are priced around of MXN301,946 (about US\$23,000). These are known as *vivienda popular*, and are only affordable to households earning more than 4.1 MW; those at or above the fifth income decile. In summary, without some type of support, half of the population in Mexico is not able to afford the typical social housing unit that the formal market can produce.

**7. The Federal Government, through CONAVI, is responsible for defining, promoting, and coordinating the National Urban and Housing Policy.** The Secretariat for Agrarian, Territorial, and Urban Development (*Secretaría de Desarrollo Agrario, Territorial y Urbano*, SEDATU) is in charge of the overall territorial development and urban policies in Mexico. CONAVI, as a decentralized entity from SEDATU, is specifically responsible for defining the housing policy and for implementing financing programs for affordable housing. The state governments are responsible for the design and implementation of the state housing laws (for which they typically have state-level housing institutions [*Organismos Estatales de Vivienda*, OREVIS]) and coordination between the local and federal levels. Finally, municipalities are responsible for formulating and implementing urban development plans and other land-use planning instruments; designating areas suitable for housing development; ensuring provision of basic services; and issuing or approving construction permits and licenses.

**8. CONAVI's Access to Financing for Housing Solutions Program (the Program) was launched in 2007 to improve affordability for low-income households.** The 2007 Housing Law allowed the implementation of federally-financed housing grants (direct supports) programs, provided that: (a) exclusively target the poor, (b) are progressive and differentiate among income segments, and (c) are objective, transparent, quantifiable, and operate under publicly disclosed operational rules. The Program was launched the same year, and represents today the main federal housing program providing direct support to low income beneficiaries.<sup>11</sup> Its main objective is to improve access to housing by providing a demand-side direct support linked to a loan to households with incomes below 4 Units for Measurement and Actualization (UMA).<sup>12</sup> The Program has been calibrated regularly to improve efficiency, equity, and progressivity of targeting. The World Bank has provided extensive technical support to the GoM throughout the life of the Program through a series of advisory, lending, and

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<sup>10</sup> Minimum Affordable Income is the income needed for a household to afford a home at the average price in that category, paying less than 30 percent of income, repaying a 20-year fixed rate mortgage with an 80 percent loan to value and 11.1 percent market interest rate (*Data source: Housing Registry [Registro Único de Vivienda, RUV] and CONAVI*). Housing typology in Mexico is grouped in six categories that vary substantially by price, size, and quality. The six categories are, in increasing average price: Affordable (*Económica*), Popular (*Popular*), Traditional (*Tradicional*), Mid-range (*Media*), Residential (*Residencial*), and Residential+ (*Residencial+*). This categorization was developed by the National Workers' Housing Fund Institute (*Instituto del Fondo Nacional de la Vivienda para los Trabajadores*, INFONAVIT). While not official, these categories are widely used to reflect the different market segments.

<sup>11</sup> The Program's operational rules are published annually on the Official Gazette and at <http://www.conavi.gob.mx/subsidios-conavi>.

<sup>12</sup> In December 2016 the GoM issued a new unit of value to be used to denominate all federal obligations and programs: the "*Unidad de Medida de Actualización*" or UMA. In February 2017, CONAVI updated the Program's operational rules to (amongst other changes) eliminate the references to Minimum Wages and introduce the reference to the UMA. For 2017, UMA is equivalent to MXN75.49 per day (the MW is equivalent to MXN80.04 per day). The UMA will be updated annually by the National Statistical Institute (INEGI). Although the program's operational rules allow for eligibility of households with income of up to 5 UMAs, the direct support amount allocated for households between 4 and 5 UMAs is zero.



analytical projects which have enhanced its design and operability. Improvements to the Program include the following:

- (a) Diversifying available housing solutions, where beneficiaries may choose to acquire new or existing units, improve their houses, purchase serviced plots, self-construct, or rent.
- (b) Eliminating the initial conditionality for lenders working with informally employed or independent beneficiaries to use the direct support with liquidity lines by the National Housing Development Bank.
- (c) Adjusting income parameters to balance increased affordability with debt sustainability.
- (d) Introducing energy efficiency requirements for units obtained with direct support to ensure a more environmentally sustainable housing sector.

9. **In 2013, as the Government launched a new Housing and Urban Policy promoting compact and sustainable cities, CONAVI introduced location into the Program eligibility criteria to discourage low-density urban expansion.** While the Program successfully incentivized housing production, most of the new units were built in the outskirts of cities with minimal urban services and infrastructure, leading to unsustainable, leap-frog urban expansion. The World Bank's analysis of the efficiency of the Program found it well targeted, fiscally sustainable, and effectively leveraging private sector participation.<sup>13</sup> However, the housing production happened largely in an unplanned, uncoordinated, and dispersed manner. Between 2000 and 2010, most Mexican cities experienced a significant drop in the number of people living in central areas, accompanied by increasing population densities in patches of urban peripheries, often large single-use residential developments.<sup>14</sup> Meanwhile, economic activities and jobs remained in the city centers. This model of urban expansion increased transportation expenditures for low income households, raised costs of infrastructure provision for governments<sup>15</sup>, among others. In 2013 CONAVI incorporated location into the criteria for allocation and segmentation of the direct supports, as a federal attempt to revert the dispersed urban expansion trend. The revised rules differentiated the direct support amounts by location according to different zones (*contornos*), with higher direct supports for "well-located" housing. Well-located housing refers to housing units in urban areas with high employment density and with access to basic services (See Annex 1 for details and methodology). CONAVI also made units located more than 900 m from an existing infrastructure network ineligible for support from the Program.<sup>16</sup>

<sup>13</sup> The Program has successfully stimulated housing supply, with a total of 1.5 million direct support disbursed; supporting around 20 percent of the formal units built. The direct support is well targeted toward low and very low-income households: 77.8 percent of direct support for home purchases and 75.7 percent of direct support for home improvements went to households earning less than 3 MW.

<sup>14</sup> Eighteen of Mexico's largest cities lost more than 20 percent of their central city population during the period. This paragraph draws extensively from the analysis developed as part of the Mexico Urbanization Review (P133243).

<sup>15</sup> For example, municipalities with the lowest density had nearly 1.5 times as much municipal spending on public works and infrastructure per capita in 2010.

<sup>16</sup> CONAVI has developed a very detailed definition of the location criteria to determine the direct support amount. It has defined core urban areas on the basis of job density (U1); adjacent areas with lower employment densities, but where the majority (at least 75 percent) of the dwellings are provided with basic services (U2); and a buffer zone of 900 m around these areas (U3). The definition is also periodically revised. A more detailed explanation is included in annex 1.



10. The pre-2013 model of urban expansion increased GHG emissions in most cities on the country. A study assessing urban expansion scenarios for Mexico City through 2050 found that a modest infill/densification strategy could reduce greenhouse gas (GHG) emissions by 6–8 percent compared to a status quo urban growth alternative.<sup>17</sup> The horizontal housing model in peri-urban areas was found to generate 44 percent more CO<sub>2</sub> than vertical intra-urban housing – mostly due to emissions from transportation. Similarly, another study on the implications of spatial expansion of the Mérida Metropolitan Area suggests that CO<sub>2</sub> emissions from public transport could be reduced by nearly one third in an ideal growth scenario that fully utilizes permitted densities in the inner-city compared to the business-as-usual growth of low-density expansion.

11. **Although the Program successfully helped increase housing supply, challenges remain to meet the main Program’s objective of increasing access to well-located housing, and of expanding affordability for the informal and vulnerable sectors.** The location criteria introduced in 2013, while necessary and strongly justified, introduced a tension with the original affordability objective of the Program. Better located housing is also relatively more expensive in all urban areas, and despite the location adjustments, in 2014 only 3.2 percent of direct supports were allocated to units in core central areas and 17.9 percent to areas already fully serviced by infrastructure networks. This suggests that the direct support differential between locations fails to compensate for the higher land price in the city center and, hence, to incentivize the construction of affordable units in the inner city by the private market. Additionally, informal workers experience higher affordability constraints with respect to the formal beneficiaries of the same income group<sup>18</sup>. The vast majority of direct supports have been directed to formal workers (84 percent) rather than to informal workers (16 percent). While informal workers represented 55 percent of the workforce in 2014, they only received 16 percent of the loans with direct supports. Formal workers are also much more likely to receive direct supports for the purchase of housing, while unaffiliated mostly receive direct supports for self-production and improvement loans.<sup>19</sup> This trend points to the lack of a robust channel to serve informal workers with purchase loans.

12. **CONAVI is now looking to diversify housing options beyond finished housing to better serve the informal and traditionally excluded population.** CONAVI has adjusted the Program focus to prioritize low-income and informal households and is in the process of identifying lenders who are eager to work with these population segments, as well as other traditionally excluded sectors such as women, disabled, and youth. Since informal and vulnerable groups do not easily obtain long-term loans; self-production can better match their needs and preferences.

13. **There is as well a critical need for CONAVI to work in partnership with municipalities to reduce regulatory constraints and strengthen urban planning at the local level.** There is a further need at this

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<sup>17</sup> See: (i) Centro Mario Molina. 2015. *Urban Planning Scenarios: Mexico City Metropolitan Area*; (ii) Centro Mario Molina, *Ciudades: Mérida Ciudades de Crecimiento*, México: Centro Mario Molina Para Estudios Estratégicos Sobre Energía Y Medio Ambiente A.C.; (iii) Centro Mario Molina, *Vivienda Sustentable: La Localización como Factor Estratégico*, Mexico: Centro Mario Molina Para Estudios Estratégicos Sobre Energía Y Medio Ambiente A.C.

<sup>18</sup> For the purpose of this document, informal refers to households headed by a person who is not affiliated to a housing provident fund (INFONAVIT, FOVISSSTE or ISSFAM).

<sup>19</sup> 70 percent of the direct supports to formal workers are used for the purchase of new houses, compared to only 1 percent of the direct supports to informal workers, with 53 percent of the direct supports to informal workers going toward self-production and 39 percent towards improvement loans instead.



stage to complement the demand-side support with policies that can enable supply at the local level, such as regulatory reforms and fiscal and land-use incentives. While CONAVI is responsible for setting Mexico's housing policy, local governments remain in charge of the formulation and implementation of urban development plans and other land-use planning instruments. As such, local governments have the ability to designate areas suitable for housing development and regulate critical issues such as standards, densities, mixed or single uses, permitting processes, or parking requirements, among others. These urban regulations directly impact developer costs and, hence, price and affordability.<sup>20</sup> Moving forward, CONAVI needs to work in partnership with local governments to explore innovative solutions in which the direct support combined with progressive urban regulation can enable the development of more affordable units within the city's existing urban areas.

**14. Local-level barriers to housing development have hindered the creation of an elastic housing market supply.** Urban land markets do not always respond to demand. This can be because of inflexible and restrictive zoning laws, excessively demanding development standards, density and land-use restrictions, parking requirements, lengthy or complex permitting procedures, and other regulations that increase developers' costs and effectively make supply inelastic. Cities also often lack tools for effective land management, the capacity to structure and finance urban projects, and/or the institutional set-up needed to implement urban renewal projects. Land cost often is the single biggest factor in improving the economics of affordable housing development; it is common for land costs to exceed 40 percent of total property prices.<sup>21</sup> By allowing mixed uses and higher densities, the high land cost can be spread among a higher number of units and different income segments, thereby, making affordable housing viable in Mexican cities.<sup>22</sup>

### C. Higher Level Objectives to which the Project Contributes

**15. The proposed Project aligns with the Country Partnership Strategy (CPS) for the period of FY2014–19.<sup>23</sup>** In particular, the proposed project supports the CPS objective of "promoting green and inclusive growth". The CPS diagnoses that urban development has been steadfast and inefficient, with low-density patterns that are not conducive to generating economies of scale in production, labor and capital mobility, and consumption. Cities generate today 75 percent of the country's GHG emissions. The project will foster greener, more inclusive, and sustainable development that mitigates climate change through the support of housing projects that are included within approved urban development areas and redevelopment projects that promote cultural heritage preservation, higher residential densities, mixed-use zoning, flexible land assembly, and development standards.

**16. The proposed Project design also directly contributes to the World Bank Group's twin goals and to Sustainable Development Goal No. 11 - "Make cities inclusive, safe, resilient, and sustainable".** Through the provision of direct supports for affordable housing, the proposed Project will promote

<sup>20</sup> This is particularly important for rental. Renters tend to value location and accessibility much more than homeowners. As centrally located land is much more expensive, affordable rental projects are virtually nonexistent in Mexican cities.

<sup>21</sup> McKinsey Global Institute. 2014. *A Blueprint for Addressing the Global Affordable Housing Challenge*.

<sup>22</sup> For example, average share of land costs per unit price in Mumbai can reach 60 percent as much as 41 percent in Rio de Janeiro and up to 50 percent in Riyadh.

<sup>23</sup> Report No 80800-MX, discussed by the Board on December 12, 2013.



social inclusiveness in cities and improve living conditions of lower-income urban dwellers while directly affecting the country’s multidimensional poverty indicator. Several studies have shown that qualitative improvements in housing units are linked to a decreased incidence of digestive and respiratory illnesses; improvements in school attendance and performance; and reductions in violence and unemployment rates.<sup>24</sup> Well-located urban housing also improves access to urban services and employment opportunities and is one of the main drivers of inclusive, resilient, and sustainable cities.

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. PDO

The Project's development objective is to increase access to affordable housing for low-income beneficiaries.

### B. Project Beneficiaries

17. The proposed Project will directly benefit low-income beneficiaries (with income below 4 UMAS) and selected local governments. It is estimated that around 28,700 persons will receive direct support under the propose Project to access formal housing. In addition, five local governments will access direct technical assistance for strengthened urban management. Under Component 2, in particular, it is estimated that 60 percent of the beneficiaries will be women-headed households.<sup>25</sup>

18. Component 3 is expected to indirectly benefit an additional number of local governments through its replication potential and demonstrative effect on the possibility of catalyzing well-located affordable housing through inclusive urban planning.

### C. PDO-Level Results Indicators

19. Achievement of the Project Development Objective (PDO) will be measured through the indicators listed in Table 1.

**Table 1. Project Development Objective Indicators**

Project Development Indicator	Component
1. Number of direct supports allocated to low-income beneficiaries	1 and 2

<sup>24</sup> Inter-American Development Bank. 2012. *Room for Development: Housing Markets in Latin America and the Caribbean*; Lipman, B. 2005. *Something’s Gotta Give: Working Families and the Cost of Housing*; The Urban Prospect. 2001. *Housing and Schooling*; Passeio Rabideau, J. M. and P. A. Toro. 1997. *Social and Environmental Predictors of Adjustment in Homeless Children*; Meyers, A., Cutts, D. Frank, D.A., Levenson, S., Skalicky, A., Heeren, T., Cook, J. Berkowitz, C., Black, M., Casey, P. and N. Zaldivar. 2005. *Subsidized Housing and Children’s Nutritional Status: Data from a Multisite Surveillance Study*.

<sup>25</sup> The share of female beneficiaries varies per program modality, with a larger share of women receiving support through the self-production modality (60 percent) and a lower share of female beneficiaries under the acquisition modality (about 39 percent).



2. Percentage of direct supports to informal (non-affiliated) beneficiaries	1 and 2
3. Number of cities that take concrete steps or actions to increase density or relieve regulatory bottlenecks for affordable housing provision	3

20. The proposed Project will also include intermediate outcome indicators, including the share of direct supports allocated for beneficiaries below 2.6 UMA (deciles 1 through 3); the number of female beneficiaries; and the percentage of beneficiaries from the informal (non-affiliated) sector. A full summary and description of these indicators is included in the Results Framework section.

### III. PROJECT DESCRIPTION

#### A. Project Components

21. The proposed Project will support CONAVI’s current Program to enhance access for low-income beneficiaries for the acquisition and self-production of housing solutions. The project funds complement a larger budget allocation to the Program from the Federal Government.<sup>26</sup>

22. The Program’s operational rules allow for the provision of direct support for: (a) acquisition of new or existing housing; (b) expansion or improvement of housing; (c) acquisition of serviced land plots; and (d) housing self-production. The proposed Project would finance direct supports for acquisition and self-production as these were considered a priority with regard to market segmentation. In addition, the proposed Project would finance support to local governments to unlock the existing regulatory and urban planning constraints to catalyze inner-city affordable housing projects. A more detailed project description including eligibility and location criteria is presented in Annex 1.

The Project includes three components:

23. **Component 1: Acquisition of Housing Units (US\$48.75 million, 100 percent IBRD financing).** The purpose of this activity is to enhance access to housing by assisting low-income beneficiaries to purchase their first new or existing housing unit in eligible locations through the provision of direct supports. “Low-income beneficiaries” are defined as eligible beneficiaries earning less than 4 UMAs, as established in the Program’s Rules of Operation. “Eligible locations” are defined as U1 and U2 *contornos* as designated by the National Urban and Housing Policy and utilized by CONAVI under the current program (see detailed description in Annex 1).

24. **Component 2: Self- production of Housing Units (US\$50 million, 100 percent IBRD financing).** The purpose of this activity is to enhance access to housing by assisting low-income beneficiaries in the design and construction of their housing units through the provision of direct support. Self-production involves the design and construction process—in the beneficiary’s plot—of a housing solution under the direct control of the beneficiary, through self-construction or through the contracting of a third party.

<sup>26</sup> Between 2007 and 2014, on average, the proposed federal budget allocation for the Program was US\$425 million per year.



Under this component, households also receive technical assistance on construction techniques, contract management, and basic financial literacy. The direct support is paired with one or multiple micro-credits typically provided by micro-finance institutions, social housing developers, cooperatives, or Multiple Purpose Financing Institutions (*Sociedades Financieras de Objeto Múltiple*). Under the self-production modality beneficiary savings can be provided in-kind or through their own labor.

**25. Component 3: Strengthening Urban Management (US\$1 million, 100 percent IBRD financing).** The purpose of the activities described below is to foster the development of affordable housing through the carrying out of: (a) technical and analytical studies to assist in the formulation/revision of selected municipal urban planning instruments including, inter alia: (i) housing demand diagnostics; (ii) infrastructure requirement analysis to inform master plans for urban renovation and/or densification; (iii) technical-prefeasibility studies; (iv) architecture urban design studies; (v) financial structuring for affordable housing investments; and (b) citizen awareness campaigns and other dissemination/communication activities.

26. This component would be implemented in parallel with components 1 and 2, and its objective is to catalyze the development of well-located affordable housing projects in municipalities across the country, through the financing of technical studies to inform urban planning instruments.

27. **Climate change mitigation co-benefits.** The proposed Project will carry climate change mitigation co-benefits through supporting the integration of transport and urban development planning. Under Component 1, 100 percent of direct supports for housing purchase will be in existing, built-up areas (U1 and U2 *contornos*). This location benefit will mitigate climate change by reducing residents' vehicle miles traveled and utilizing existing infrastructure networks compared to the status quo alternative of new, low density peripheral development that would require additional investment in roads and infrastructure. Also, about 10 percent of housing units purchased with the direct supports will meet Mexico's Nationally Appropriate Mitigation Actions which include water and energy-efficient appliances, lighting, and heating and cooling equipment, which will reduce overall GHG emissions.<sup>27</sup> Under Component 3, 100 percent of the funding will be used for studies to enhance PDUs in order to enable more compact, dense residential development with greater proximity to public transit options in central city areas. Climate change mitigation co-benefits comprise 41.75 percent of project resources, specifically the total amounts allocated to direct supports for new housing purchase under Component 1 and financing for studies under Component 3.

## B. Project Cost and Financing

28. IBRD will finance US\$100 million as per the table below. The proposed loan would have a variable spread, with a final maturity of 15 years, including a grace period of 14.5 years.

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<sup>27</sup> CONAVI is piloting similar programs for linking direct supports for the purchase of energy-efficient existing houses and through encouraging Works Executing Entities (*Organismo Ejecutor de Obra*, OEOs) to include these type of designs elements for the self-production modality.



Project Components	Project Cost (US\$, millions)	IBRD or IDA Financing (US\$, millions)	Trust Funds	Counterpart Funding
Component 1 –Acquisition of housing units	48.75	48.75	—	—
Component 2 - Self-production of housing units	50.00	50.00	—	—
Component 3 – Strengthening Inclusive Urban Management	1.00	1.00	—	—
<b>Total cost</b>	99.75	99.75	—	—
Total project cost	99.75	99.75	—	—
Front-end fees	0.25	0.25	—	—
<b>Total financing required</b>	100.00	100.00	—	—

### C. Lessons Learned and Reflected in the Project Design

29. **Lessons learned from the most recent engagements with the urban and housing sector in Mexico have informed project design.** The World Bank has a two-decade long-standing engagement in the housing and urban sectors in Mexico, including an array of lending, analytical, and convening services. The design of the current direct support Program itself was shaped in part through the World Bank’s deep engagement. Over the past three years, through the Programmatic Approach for Urban and Housing Policy (P147899) the World Bank finalized: (a) the Mexico Urbanization Review Report (P133243); and (b) the Housing Policy and Financing RAS (P150380). Several of the lessons learned as part of this process have been incorporated into the project design, most notably the need to adjust the Program’s parameters; the importance of diversifying housing solutions beyond finished housing; and the need to work with municipalities to reduce the supply constraints deriving from urban regulation.

30. **The project incorporates recommendations from the recent review of the Independent Evaluation Group (IEG) of the World Bank housing finance projects.**<sup>28</sup> Challenges identified by IEG in the review included a lack of clear target groups and results tracking, the need to include key housing finance institutions and commercial mortgage lenders, and a disassociation of national-level programs from parallel urban development strategies. The project incorporates these lessons into the current design through the provision of different housing solution options for different market segments; the leveraging of existing commercial and non-bank financial institutions to bundle mortgages with direct supports and beneficiary contributions; and the segmentation of the market to ensure that the loan portfolio performance remains adequate. Finally, Component 3 will reduce barriers constraining the production of affordable housing in central city areas.

<sup>28</sup> World Bank. 2016. World Bank Group Support for Housing Finance: An IEG Learning Product.



## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

31. The project will be implemented by CONAVI. The Mexican Development Bank (*Nacional Financiera S.N.C, I.B.D., NAFIN*) will act as the financial agent. CONAVI is a deconcentrated unit of SEDATU with independent legal personality and budgetary autonomy. All technical and fiduciary aspects of the project will be carried out by the existing assigned units within CONAVI, and overall coordination will be carried out by the Multilateral and Sustainability Unit (*Unidad de Relación con Multilaterales y Sustentabilidad*). The specific implementation arrangements are established in the Program's operational rules, which are published annually in the Official Gazette and instrumented in the Operation Manual.

32. To implement the Program, CONAVI enters into agreements (*Convenios de Adhesión*) with the entities that grant the loans to beneficiaries, called the Executing Entities (*Entidades Ejecutoras, EE*). EEs are private commercial banks or other lending institutions, and are responsible for by-passing the direct support to eligible recipients and ensuring that it is used following CONAVI's guidelines. Under the self-production modality, in addition to the EE, the beneficiary is required to work with an OEO, which is responsible for providing technical assistance to the beneficiary on technical design and construction and typically also acts as third party builder. The detailed description of project implementation and roles and responsibilities of all the stakeholders is included in Annex 2.

### B. Results Monitoring and Evaluation

33. The Results Framework describes the PDO-level and intermediate indicators. Monitoring and evaluation arrangements and duties are discussed in detail in Annex 2. CONAVI has a robust information system, the *Sistema Nacional de Información e Indicadores de Vivienda (SNIIV)* that is regularly maintained and updated and will provide key information for supervision and monitoring. In addition, the National Housing Registry (or RUV), which is an independent source of information on housing supply and demand provides geo-referenced information on direct supports and loans allocated. This system compiles all housing information available in the country, including maps of all existing land reserves, housing supply, and data for potential beneficiaries and publishes monthly and quarterly housing reports.<sup>29</sup>

### C. Sustainability

34. **The project supports the goals of the National Urban and Housing Policy by improving the environmental and economic sustainability of cities.** Component 1 will provide direct supports for housing acquisition in existing urban areas which have better proximity to jobs and services. This will reduce the expenditure and commuting burden to beneficiary households. It will also reduce the infrastructure investment needed by local governments for new peripheral urban developments. Furthermore, at least 10 percent of units purchased with direct supports will also include energy-

<sup>29</sup> Can be accessed at [http://sniiv.conavi.gob.mx/SNIIV\\_Ini.aspx](http://sniiv.conavi.gob.mx/SNIIV_Ini.aspx).



efficient technologies (through the *Ecotecnologías* program), providing additional savings to households and utility providers. Component 3 builds on this by reducing barriers to affordable housing provision in central city areas.

35. **The Program's design is fiscally sustainable.** Direct support amounts per beneficiary are relatively small and focus on leveraging credit and savings. Because of the lower expenditure per beneficiary, the Program represented just 0.26 percent of the Mexican Government budget expenditure in 2014. Combined with the modest per capita direct support amount, the Program can reach a greater number of beneficiaries than comparable programs in other countries. As the direct supports leverage additional contributions including savings and mortgages, a positive spillover effect to the housing finance sector is provided.

#### D. Role of Partners

Not applicable

### V. KEY RISKS

#### A. Overall Risk Rating and Explanation of Key Risks

36. **The overall risk rating for the project is Moderate.** Individual risks are included in the Systematic Operations Risk Rating Tool (SORT). The highest-rated risks and accompanying mitigation measures are related to fiduciary aspects.

37. **Fiduciary.** Financial management (FM) risk is considered to be Substantial. The project entails complex implementation arrangements and a complicated flow of funds and information, involving numerous actors. CONAVI and NAFIN will have to work in coordination to carry out some of the FM tasks, such as preparing financial reports and disbursement requests. However, there are several mitigating factors that reduce the risk: (a) the country's overall FM arrangements are strong and the budget operates under a comprehensive and well-established legal framework; and (b) within the Program itself there are clear rules of operation, expenditure documentation, oversight, and a capable FM unit within CONAVI. In addition, the World Bank will conduct periodic FM supervisions and provide periodic training and capacity-building exercises, and the project will be subject to an annual audit by an independent firm in accordance with terms of reference acceptable to the World Bank.

### VI. APPRAISAL SUMMARY

#### A. Economic and Financial (if applicable) Analysis

38. A cost-benefit analysis was used to assess the project's impacts on households by comparing 'with' and 'without' direct support scenarios. Results show that the planned intervention is a worthwhile investment as it will have a positive impact on the quality of life of the beneficiaries. When the project is



evaluated assuming that the beneficiaries will not change location, results show that both components are economically viable with returns of about 30 percent. The overall project yields a 30 percent return and net benefits of about US\$122 million. Total benefits are twice as much as the costs, which allows ample room for uncertainties along the lifetime of the interventions. A more detailed summary of the Economic Analysis is included in Annex 4.

## B. Technical

**39. An in-depth technical review of the Program and its ability to address housing demand in Mexico was conducted as part of the Mexico Urban and Housing PA (P147899).** The review found it well targeted, fiscally sustainable, and effectively leveraging private sector participation.<sup>30</sup> The Program has successfully stimulated housing supply, with a total of 1.5 million direct supports disbursed, which supported around 20 percent of the formal units built. The direct support is well targeted towards low and very low income households: 77.8 percent of direct supports for home purchases and 75.7 percent of direct supports for home improvements went to households earning less than 3 MW. CONAVI has already incorporated several recommendations from the technical analysis performed by the Bank. One of the key recommendations was to adjust Program parameters (direct support amount, maximum house price) to sharpen allocation to the highest need groups and to recognize the heterogeneity of prices and incomes in different urban areas. In March 2016, CONAVI launched a pilot program with adjusted direct support amounts (higher for central city areas) to calibrate the direct support amounts in the medium term. The analysis also recommended to intensify and prioritize the housing solutions beyond finished housing (rental and self-production) as these tend to favor the informally employed and traditionally excluded population (60 percent of the self-production direct supports go to women) who can struggle to obtain (and pay-back) a long-term loan. To this end, CONAVI started two new pilots for direct support for rental housing and is in the process of developing a proposal for a new regulatory framework for small land owners that targets low-income tenants. A more detailed list of the key finding from the technical review can be found in Table A1.6 in Annex 1.

## C. Financial Management

40. The World Bank conducted an FM Assessment in accordance with OP/BP 10.00 and the Guidelines for Assessment of Financial Management Arrangements in World Bank-Financed Projects. The project entails complex implementation arrangements and a complicated flow of funds and information involving numerous actors (beneficiaries), including CONAVI as the implementing agency in charge of project components and NAFIN as the financial agent; these two agencies will have to coordinate to conduct some of the FM tasks such as preparing financial reports and disbursement requests. The FM risk that arises from this complex process is mitigated through various mechanisms, including (a) the country's strong overall country public FM arrangements, (b) the fact that the Program is governed by a set of well-defined operating rules which include strict eligibility criteria for selecting beneficiaries and clear rules for transferring the money, documenting the Program's expenditures, and

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<sup>30</sup> The analysis performed as part of the Housing Policy and Housing Finance RAS (P150380) considered the period 2007 to 2014.



for the Program’s oversight; and (c) CONAVI’s long-standing experience in working with the World Bank and the fact that its FM Unit is well staffed with adequate segregation of functions. The World Bank will conduct periodic FM supervisions and trainings aimed at building capacity. The project will be annually audited by an acceptable audit firm, in accordance with terms of reference acceptable to the World Bank. Detailed FM arrangements are described in Annex 3.

#### D. Procurement

41. The World Bank performed a Procurement Assessment to evaluate the capacity of CONAVI to implement procurement activities under the project. Capacity within CONAVI was deemed to be adequate for project implementation. Under Component 1, no procurable activities were identified. Component 2 will finance direct support for self-production of housing solutions under commercial practices pursuant to paragraph 3.13 of the Procurement Guidelines. Commercial practices were selected as the most appropriate procurement method, given the very small amounts of the purchases (estimated up to US\$3,572 of a total cost of US\$17,028 of the housing solution), and due to the diversity of the practices used across the country, depending on the OEO and on the geographical dispersion of the activities. Typically OEOs include in their manuals price reference of the materials to be used in the housing solutions; and while commercial practices are diverse, in all cases OEOs have to be accredited by CONAVI.

42. Component 3 will finance consultant and non-consultant services procured directly by CONAVI in agreement with municipalities—these activities are not considered to be complex. Detailed procurement arrangements are described in Annex 2. A Procurement Plan for the first 18 months of the Program has been prepared by the executing agency and provides the basis for the procurement methods. The activities and corresponding amounts of this Procurement Plan will be confirmed and perfected once project implementation begins. This plan will be available on the World Bank’s external website and in STEP or any other system agreed with the Bank. The Procurement Plan will be updated in agreement with the World Bank annually or as required to reflect actual implementation needs and improvements in institutional capacity.

#### E. Social (including Safeguards)

43. **The project is expected to have positive social impacts as it is expected to increase access to housing solutions for low-income beneficiaries.** Since its inception, the Program has provided around 1.5 million direct supports to an equal number of beneficiaries. Most of the direct supports have benefitted households earning less than 3 UMA (77.8 percent for home purchases). Since 2016, the Program has also improved its targeting strategy to reach poorer and vulnerable households by adjusting the direct support amounts and by prioritizing self-production of housing solutions. Such solutions are more appropriate for people employed in the informal market and excluded segments of the population. As an example, 60 percent of the total supports for self-production of houses are received by female-headed households. To that effect, Component 2 is designed to provide financing solutions for the lowest-income brackets on the target population by focusing on direct supports for self-production.



44. **The project is not expected to result in any instances of involuntary land acquisition and/or displacement of people throughout the country, irrespective of whether they are indigenous or non-indigenous populations.** The project will support a demand-driven Program that is implemented under a voluntary scheme where individuals (not groups or communities) apply for assistance to either build or buy a home commensurate to their economic and financial capacity. Beneficiaries must use the direct support to obtain or improve housing on privately owned land. Given its voluntary and individual nature, activities that could potentially trigger eminent domain or the seizing of lands where informal settlers reside are not expected, thus OP/BP 4.12 (Involuntary Resettlement) is not triggered.

45. **The project will support an existing Program that has a national-level coverage, including states where indigenous peoples are present, and thus OP/BP 4.10 (Indigenous Peoples) is triggered.** While the project is not expected to have negative impacts on indigenous peoples, a Social Assessment (SA) and an Indigenous Peoples Plan (IPP) have been prepared by the Borrower with the intent to identify positive and/or negative impacts, mitigation measures if necessary, and particularly, ways to maximize potential benefits for indigenous peoples. The Program has already been successful in providing low-income housing solutions to indigenous municipalities. For example, in 2010, the Program allocated direct supports in 1,070 of the 2,424 indigenous municipalities existing in Mexico. A consultation process for the IPP with Indigenous Peoples was undertaken in November, 2016. The consultations covered two key regions of Mexico (Yucatan and Campeche), chosen on the basis of: (i) relative density of Indigenous Population (> 40 percent of the total population); and (ii) localities with indigenous populations that receive at least one type of assistance from the Program, among the three modes of Improvement and Self-Production. Participants in the consultation sessions included: (i) previous beneficiaries who received housing direct supports from 2015 as well as possible new target beneficiaries; (ii) representatives of Indigenous Peoples' traditional authorities as well as municipal representatives; (iii) representatives from the Consultative Council of the National Commission for the Development of Indigenous Peoples *Comisión Nacional para el Desarrollo de los Pueblos Indígenas*, (CDI); and (iv) representatives of OEOs. The IPP was disclosed in-country and through the World Bank's external website on April 11<sup>th</sup>, 2017.

## F. Environment (including Safeguards)

46. The Project has an environmental risk Category B, as it is unlikely to result in significant negative impacts. Environmental impacts are expected to be localized and short term and can be mitigated with readily available standard measures.

47. An Environmental and Social Management Framework (ESMF) has been prepared by the Borrower. The ESMF (a) documents compliance with existing Mexican regulation and with the World Bank Safeguards; and (b) assesses the acceptability of the Program's mitigation measures in place and develops acceptable ones. The ESMF found that the Project supports an ongoing program which has controls in place for most environmental and social risks related to purchase of new housing (Component 1), including controls on building materials and locations in high risk zones. One gap was identified for existing homes built prior to 1994 when asbestos regulations were passed, therefore homes older than this will be excluded from financing by the project. Areas for improvement exist for controlling risks in construction of new lower-income housing units (Component 2), chiefly from



variations in local permit enforcement and variable performance by small housing supervisors (OEOs); these will be addressed by strengthening capacity of OEOs based on an ex-post audit and assessment of Component 2 performance after 12 months, with subsequent implementation of recommendations as indicated for development of tools (inspection and screening checklists, beneficiary information materials) and training (workshops and modules). The Terms of Reference for planning studies (Component 3) will be reviewed by World Bank to ensure any potential indirect impacts are identified and addressed appropriately. The draft ESMF was disclosed in-country, on CONAVI's webpage, on April 11th, and consulted on April 18th, 2017. The results from the consultation process are incorporated into the final ESMF which was disclosed in-country, and on the World Bank's external website on April 21, 2017.

#### **G. Other Safeguard Policies (if applicable)**

48. No other safeguard policies are triggered for the project.

#### **H. World Bank Grievance Redress**

Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).



**VII. RESULTS FRAMEWORK AND MONITORING**

**Results Framework**

**COUNTRY : Mexico**

**Improving Access to Affordable Housing Project**

**Project Development Objectives**

The Project's development objective is to increase access to affordable housing for low-income beneficiaries.

**Project Development Objective Indicators**

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<b>Name:</b> Number of direct supports allocated to low-income beneficiaries		Number	0.00	28700.00	Biannual	National Housing Information and Indicators System (SNIIV)	CONAVI

**Description:** This indicator will measure the number of direct supports to eligible beneficiaries for housing purchase in U1 and U2 contornos. The target is estimated as all the direct supports expected to be disbursed are under Components 1 and 2

<b>Name:</b> Percentage of beneficiaries from the informal sector		Percentage	0.00	5.00	Biannual	National Information and Indicators System (SNIIV)	CONAVI
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**Description:** The percentage of beneficiaries under Components 1 and 2 who are not affiliated to a housing provident fund.



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<b>Name:</b> Number of cities that take concrete steps or actions to increase density or relieve regulatory bottlenecks for affordable housing provision.		Number	0.00	3.00	Biannual	Sub-directorate of Housing Analysis, Planning, and Sustainability	CONAVI
<p>Description: This includes those cities benefitted by the project that:</p> <ol style="list-style-type: none"> <li>1) Introduce regulations that a) increase residential densities in central city areas, b) provide for inclusive zoning or land-use changes that enable the provision of affordable housing, c) create institutional schemes for the implementation of residential projects; and/or</li> <li>2) Remove or reduce barriers to housing development in central city areas, such as: a) revising development standards (setbacks, lot coverage, heights), b) adjusting urban infrastructure requirements, c) fast-tracking approvals for projects with affordable units; and/or</li> <li>3) Approve a specific area plan that includes affordable housing in central city zones or including flexible /floating zoning designations.</li> </ol>							
<b>Name:</b> Direct project beneficiaries		Number	0.00	28700.00	Biannual	National Housing Information and Indicators System (SNIIV)	CONAVI
Female beneficiaries		Percentage	0.00	50.00	Biannual	National Information and Indicators System (SNIIV)	CONAVI
<p>Description: Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.</p>							



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
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**Intermediate Results Indicators**

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<b>Name:</b> Percentage of direct supports allocated for beneficiaries below 2.6 UMAs		Percentage	0.00	50.00	Biannual	National Housing Information and Indicators (SNIIV)	CONAVI
<b>Description:</b> The percentage of direct supports under Components 1 and 2 received by beneficiaries earning 2.6 UMAs or less. The target is estimated based on historic data.							
<b>Name:</b> Number of studies completed to support proposed urban plans		Number	0.00	5.00	Biannual	National Housing Information and Indicators (SNIIV)	CONAVI
<b>Description:</b> Technical studies financed as inputs for municipal development projects to be reviewed by CONAVI							
<b>Name:</b> A community dissemination campaign targeting indigenous populations designed and implemented		Yes/No	N	Y	Biannual	Sub-directorate of Housing Analysis, Planning, and Sustainability & Sub-directorate General for Subsidies and Institutional	CONAVI



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
						Development	
Description: One community dissemination campaign targeting indigenous populations is designed and implemented by CONAVI. Included in the IPP action plan.							
<b>Name:</b> An empowerment system for beneficiaries is designed and implemented		Yes/No	N	Y	Biannual	Sub-directorate of Housing Analysis, Planning, and Sustainability & Sub-directorate General for Subsidies and Institutional Development	CONAVI
Description: A call-back empowerment system for beneficiaries is designed and implemented by CONAVI. Included in the IPP action plan.							
<b>Name:</b> Training workshops carried out on: construction best practices; workers safety and security; local and culturally adequate design; and/or participatory planning, especially towards wome		Number	0.00	5.00	Biannual	Sub-directorate of Housing Analysis, Planning, and Sustainability & Sub-directorate General for Subsidies and Institutional Development	CONAVI
Description: Training workshops carried out on: construction best practices; workers safety and security; local and culturally adequate design; and/or participatory planning, especially towards women and indigenous peoples. Included in the IPP action plan.							

**Target Values****Project Development Objective Indicators**

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Number of direct supports allocated to low-income beneficiaries	0.00	7000.00	14000.00	21000.00	28700.00	28700.00
Percentage of beneficiaries from the informal sector	0.00	5.00	5.00	5.00	5.00	5.00
Number of cities that take concrete steps or actions to increase density or relieve regulatory bottlenecks for affordable housing provision.	0.00	0.00	1.00	2.00	3.00	3.00
Direct project beneficiaries	0.00	7000.00	14000.00	21000.00	28700.00	28700.00
Female beneficiaries	0.00	50.00	50.00	50.00	50.00	50.00

**Intermediate Results Indicators**

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Percentage of direct supports allocated for beneficiaries below 2.6 UMAs	0.00	50.00	50.00	50.00	50.00	50.00
Number of studies completed to support proposed urban plans	0.00	1.00	3.00	4.00	5.00	5.00
A community dissemination campaign targeting	N	N	Y	Y	Y	Y



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Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
indigenous populations designed and implemented						
An empowerment system for beneficiaries is designed and implemented	N	N	Y	Y	Y	Y
Training workshops carried out on: construction best practices; workers safety and security; local and culturally adequate design; and/or participatory planning, especially towards wome	0.00	1.00	2.00	3.00	5.00	5.00

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## ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY : Mexico

### Improving Access to Affordable Housing Project

1. CONAVI's Access to Financing for Housing Solutions Program was created in 2007 with the objective of improving access to financing for low-income population for housing solutions in an orderly and sustainable urban growth environment. The Program is in line with the guidelines set out in the National Urban and Housing Policy established by the Mexican Government in 2013, which set forward an integrated urban and housing approach, aiming at containing urban sprawl, consolidating and compacting cities, and promoting the diversification of housing solutions. Under the Program, CONAVI awards up-front direct supports to low-income sectors of the population that are able to obtain a mortgage and contribute to a previous saving toward a good-quality, well-located housing solution. The Program is national and is applied directly for the following modalities for housing solutions: (a) acquisition of new or existing housing; (b) expansion or improvement of housing; (c) acquisition of serviced land plots; and (d) self-production of housing. The World Bank also provided deep analytical and advisory support in the development of the current Program, which the project will support under the acquisition and self-production support modalities for low-income beneficiaries. The project will not include financing for the other modalities offered by the Program. Additionally, the project will support local governments address regulatory and capacity bottlenecks to catalyze inner-city affordable housing projects. This annex presents a detailed description of the proposed interventions.

#### I. Project Description

##### Component 1: Acquisition of Housing Units (US\$48.75 million, 100 percent IBRD financing)

2. **The objective of Component 1 is to improve access to housing acquisition for low-income households (earning less than 4 UMAs)<sup>31</sup> in well-located, serviced urban areas.** This component will finance up-front direct supports awarded under CONAVI's Program for the acquisition of new and existing housing solutions within eligible urban areas (U1 and U2). Improving affordability for housing solutions is particularly relevant in the light of the housing deficit and average housing costs, unaffordable to a large share of the population. The housing deficit in the country remains high, at about 9.7 million units (2014), and it is estimated that the formal annual housing production will have to increase by 70 percent to meet the new demand and eliminate the quantitative deficit by 2030.<sup>32</sup> Additionally, without some type of support, half of the population in Mexico is not able to afford the typical low-cost social housing unit that the formal market can produce (*vivienda popular*, which represents 60 percent of the mortgage loans and is only affordable to households earning 4.1 UMA or above).

<sup>31</sup> This is equivalent to MXN9,179.58 or US\$486.52 per month.

<sup>32</sup> From 2015 to 2030, the number of households is expected to grow by one-third, adding 9.2 million new households in total. Just to meet new projected demand and to address current quantitative deficit, approximately 850,000 new units need to be built annually until 2030, compared to an average of less than 500,000 formal units built annually between 2007 and 2014. This projection can be affected by the continued decline in headship rates. This trend can contribute to higher levels of household formation even if population growth slows down.



3. **The proposed component will allocate direct supports for the acquisition of housing solutions through the Program, and in accordance with its processes and operational rules.** The Program's operation is described and instrumented in CONAVI's operational rules and the Operations Manual. The direct support funds will be channeled through the EEs, which are the financial institutions that award the loan to the beneficiary and which are also in charge of the correct application of the support. The role and responsibilities of the participating EEs are laid out in the Adhesion Agreement signed with CONAVI and include the dissemination of the Program; receiving and filtering of the applications based on the eligibility criteria; and the devolution of the direct support in case of noncompliance with the requirements stated in the operational rules. The EEs can be the national housing finance institutions (The Housing Fund State and Social Services Employees, *Fondo de la Vivienda del Instituto de Seguridad Social y Servicios Sociales de los Trabajadores del Estado* [FOVISSSTE], INFONAVIT, ISSFAM); private financing intermediaries; financing intermediaries that operate through National Credit Societies; OREVIS; social housing developers; and social executors. However, between 2007 and 2014, the vast majority of the direct support-linked loans were allocated by INFONAVIT (53.9 percent) and the Federal Mortgage Society (*Sociedad Hipotecaria Federal*, SHF) (28.2 percent).<sup>33</sup>

4. **Applicants will need to comply with the minimum eligibility requirements, including having been awarded a mortgage loan and possessing the required savings amount.** The beneficiaries include any person whose income is below the well-being line, as established by the National Council for the Evaluation of the Social Policy (*Consejo Nacional de Evaluación de la Política de Desarrollo Social*), or estimated as the population with individual income below 4 UMA<sup>34</sup>. Table A1.1 shows that the beneficiaries are in the bottom 50 percent of the income distribution. To participate in the Program the person must also comply with the following requirements:

- (a) Possess a national identification number (*Clave Única de Registro de Población*, CURP).
- (b) Submit a request that includes a declaration of (i) not having received in the past another federal direct support for housing, with few exceptions;<sup>35</sup> (ii) not possessing another house apart from the one for which the direct support is being requested; and (iii) compliance with the Program requirements.
- (c) Possess the required preexisting savings amount.<sup>36</sup>
- (d) Have been awarded a mortgage loan by an EE.
- (e) Be over 18 years old or possess a marriage or paternity/maternity certificate.

<sup>33</sup> MX RAS Housing Policy and Housing Finance (P150380).

<sup>34</sup> Although the program's operational rules allow for eligibility of households with income equal to 5 UMAs, the direct support amount allocated for households between 4 and 5 UMAs is zero.

<sup>35</sup> Exceptions, with the ceiling of 35 UMA in total direct support, are: (a) beneficiaries of the modality for acquisition of serviced land can apply to the improvement/expansion or self-construction modalities; (b) beneficiaries of the improvement/expansion modalities can request up to three direct supports for the same modality, specifying it in the request; (c) beneficiaries of the self-construction modality can request another direct support for the improvement/expansion ones.

<sup>36</sup> This corresponds to 5 UMA for acquisition, and 5 percent of the value of the solution for self-production.



**Table A1.1. Distribution of Monthly MW Income according to Income Deciles**

Income Decile:	1	2	3	4	5	6	7	8	9	10
Mean Household Income in MW	0.9	1.9	2.6	3.4	4.2	5.2	6.5	8.3	11.3	24.6
Mean Household Income MXN	1,904	3,910	5,418	6,963	8,678	10,698	13,245	16,919	23,150	50,254

Source: CONAVI.

5. **The selected housing solutions must also comply with minimum quality and environmental requirements, in addition to those imposed by local government regulation.** Such preconditions include being located in an authorized area under the Urban Development Plan and not being located in risk-prone areas, incorporated with energy efficiency standards (such as minimum insulation requirements, quick recovery gas heaters, solar water heaters, compact fluorescent lamps); water-saving mechanisms; and waste management installations.

6. **The direct support amount allocated will depend on the income of the beneficiary and on the characteristics of the housing solution.** The maximum direct support amount that a beneficiary can currently receive corresponds to 35 UMA (US\$4,257). The amount has increased over time but has typically financed around 20 percent of the value of new units, a depth that is considered adequate and remains within fiscally sustainable parameters. The maximum direct support amount available for home acquisition has steadily increased from MXN50,700 in 2007 (US\$4,600) to MXN82,155 in 2016 (US\$4,190). The maximum price of eligible units has nearly doubled: from MXN227,000 in 2007 to MXN444,083 in 2016 (US\$22,640), but the level of direct support as a share of house value has remained relatively stable at around 20 percent for house purchase (maximum direct support and house amounts are shown in Table A1.2). The direct support is allocated in a progressive manner depending on the cost and characteristics of the housing solution (for example, the more expensive the solution, the smaller the direct support) and assigns a larger amount to beneficiaries with incomes equal or below 1.4 UMA. The direct support segmentation is presented in Table A1.3, subject to the scoring achieved.

**Table A1.2. Maximum Direct Support Amount, Prior Savings, and Permitted House Costs for Acquisition and in 2017 (US\$)**

Type		Direct support Amount*	Prior Savings	Housing Solution Cost	
		Maximum		Minimum	Maximum <sup>a</sup>
Acquisition	New	4,257	608	7,298	19,217**
	Used	4,0145	608	—	19,217**

Source: CONAVI.

\*The lower the value of the solution, the higher the direct support. Also, the better located the solution, the higher the direct support.

\*\*In special cases, such as natural disasters, the price of acquisition can be up to 231 UMAs (about US\$28,210).

<sup>a</sup>The maximum value of the housing solution could be higher as long as the differences are covered with nonfederal resources.



Table A1.3. Direct Support Segmentation based on Housing Solution Price and Scoring Achieved

Incomes up to 2.7 UMAs

Price of the Solution (UMAs)	Scoring												
	0 to 350	350 to 400	400 to 450	450 to 500	500 to 550	550 to 600	600 to 650	650 to 700	700 to 750	750 to 800	800 to 850	850 to 900	900 to 1,000
Category I: > 136 to 158	0	0	0	18	19	20	21	22	23	24	25	26	27
Category II: ≥ 60 to 136	0	18	19	20	21	22	23	24	25	26	27	28	29
Category III: ≥ 60 to 128 acquired by a beneficiary with income ≤ 1.4 UMA	0	25	25	26	27	28	29	30	31	32	33	34	35

Incomes from 2.7 up to 4 UMAs

Price of the Solution (UMAs)	Scoring												
	0 to 350	350 to 400	400 to 450	450 to 500	500 to 550	550 to 600	600 to 650	650 to 700	700 to 750	750 to 800	800 to 850	850 to 900	900 to 1,000
Category I: > 136 to 158	0	0	0	4	5	5	6	6	7	7	8	8	9
Category II: ≥ 60 to 136	0	4	4	5	5	6	6	7	7	8	8	9	10

Source: CONAVI.

7. **The location of the unit is the most important scoring criteria for the direct support amount.** In response to the growing vacancy in the subsidized stock and to reflect the new policy goals of the National Urban and Housing Programs, a major reform to CONAVI’s direct support program was introduced in 2011 and expanded in 2013: the use of location criteria in the segmentation of direct supports. The main objective of the introduction of the perimeters of urban containment (the *contornos*) into the scoring criteria was to drive new housing developments toward urban areas that are in proximity to job sources and urban services.

8. The geostatistical model for the actualization of the *contornos* comprises a mapping of the 384 urban centers with over 15,000 inhabitants included in the National Urban System of Mexico. On this basis, CONAVI divided the urban areas into three *contornos*.<sup>37</sup>

- **U1:** Areas with the highest employment density. Based on the proportion between employed people (derived from the Economic Census) and inhabitants (derived from the

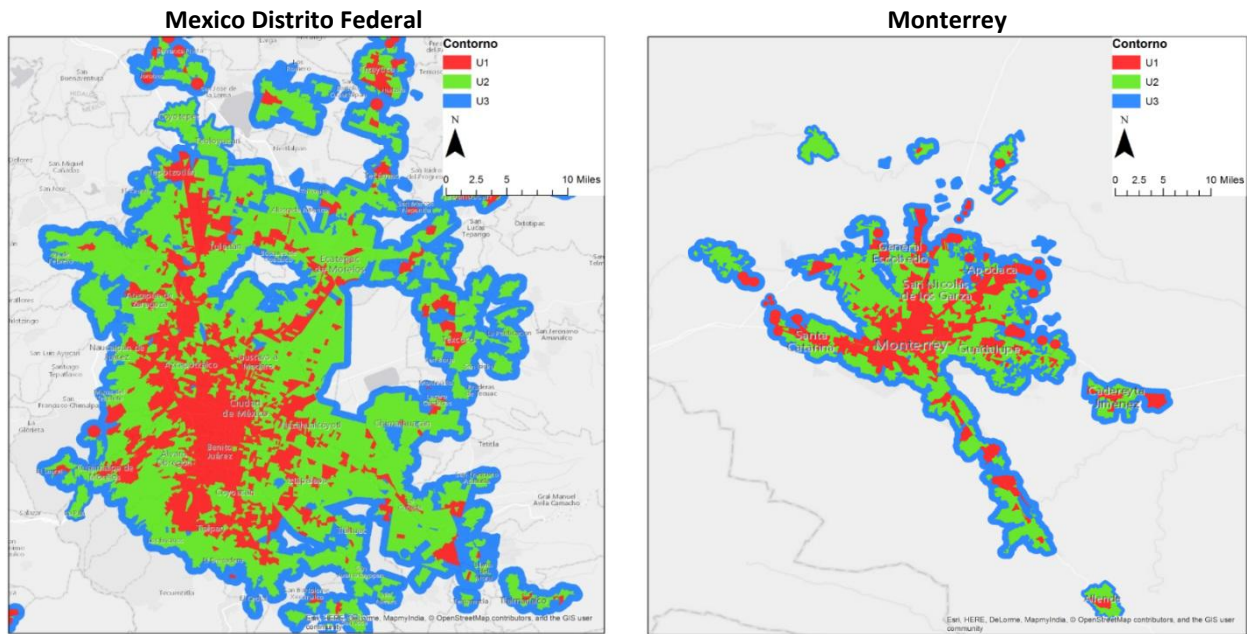
<sup>37</sup> The *contornos* are not based on a land-use definition, but are mostly comprised of land zoned for mixed-use or housing. Municipalities, however, maintain control over land-use planning and the *contornos* are not intended to be used for that purpose.



Population and Housing Census) in a given Basic Geostatistical Area (*Área Geoestadística Básica*). A Basic Geostatistical Area is considered U1 when this proportion is bigger or equal to 1 (meaning there are the same number or more jobs per habitant). An area can also be considered U1 if it is included in U3 and is close enough to an economic unit that employs over 250 people (the length of the radius varies depending on the size of the city). The *contorno* is updated along with the National Directory of Economic Units and the Economic Census.

- **U2:** The second *contorno* is defined as follows: (a) if there exists *contorno* U1 - that is, there cannot exist a U2 without a U1 *contorno* with the employment proportion described above; and (b) when at least 75 percent of the houses have access to water and drainage services (derived from the Population and Housing Census).
- **U3:** The third *contorno* is conformed as a buffer zone around U1 and U2 (depending on the city size, this can range from 500 m to 900 m). Figure A1.1 presents examples of the *contornos* for Mexico City and Monterrey.

Figure A1.1. Example of *Contornos*: Metropolitan Areas of Mexico DF and Monterrey, 2015



Source: CONAVI.

Note: Red areas correspond to U1, green to U2, and blue to U3. Areas without color are *Fuera de Contorno*.

9. **Other than location, direct support amounts are assigned based on density, proximity to services, and environmental sustainability.** The scoring of the applications is performed on the basis of the following weighting and criteria:

- (a) Location, using perimeters of urban containment - *contornos* (40 percent)
- (b) Densification, based on the type and density of the project (23 percent)



- (c) Services, presence of urban services and infrastructure (27 percent)
- (d) Competitiveness, linking housing sustainability with market solutions (10 percent)

10. Table A1.4 presents a detailed disaggregation of the scoring criteria. The competitiveness criteria refers to energy efficiency and environmental sustainability equipment available in the house (for example, if at least 50 percent of the lights in the house are LED, the beneficiary is awarded 17 points).

**Table A1.4. Qualifying Criteria for Direct Support Directed to New Housing**

Criteria	Criteria to Evaluate	Highest Rating	
Location (400 maximum rating)	U1	400	
	U2	320	
	U3	250	
Services (270 maximum rating)	Health center	Less than 2.5 km away	40
		1.5 to 2.5 km	100 – (distance/25)
	Nursery school	0 to 0.7 km	40
		0.7 to 1 km	133.33 – (distance/7.5)
	Kindergarten	0 to 0.7 km	40
		0.7 to 1 km	133.33 – (distance/7.5)
	Elementary school	0 to 1 km	40
		1 to 2 km	80 – (distance/25)
	Grocery store no more than 0.7 km away or market in less than 2 km		10
	Wired or wireless broadband infrastructure		10
	<b>Public transport:</b> (a) stops transport within 300 m and (b) more than one way in a radius of 300 m.		25
	<b>Nonmotorized transport and inclusive infrastructure:</b> (a) sidewalk minimum of 2.5 m with disabilities infrastructure and (b) bikeway with physical confinement (house to public transport).		15
	<b>Common areas:</b> (a) sports court in less than 1 km from the house; (b) sporting and recreational space of 200 m <sup>2</sup> within 500 m of housing; (c) playground within 300 m of housing without crossing primary route; (d) Community Center with at least one bath within 2 km; (e) green area: 5% of marketable area (native vegetation).		50 points for 3 topics 29 points for 2 topics 18 points for 1 topic
Densification (230 maximum rating)	Housing type	Vertical housing	80
		Duplex	60
	Project densification	> 90 up to 120 houses/ha	(Density x 2.3) – 130
		> 60 up to 90 houses/ha	(Density x 2.3) – 60
≥ 40 up to 60 houses/ha		(Density x 2.5) – 60	
Competitiveness (100 maximum rating)	Housing and project sustainability options to choose.	Up to 100 points	

Source: Reglas de Operación del Programa 2014, CONAVI.



**Component 2: Self-production of Housing Units (US\$50 million, 100 percent IBRD financing)**

11. **The objective of this component is to improve access to self-production of basic housing units for lower-income beneficiaries.** Under this component, the project will support the Program’s direct supports for self-production for households with income below 4 UMA. Self-production is typically implemented in rural areas, and is targeted at lower-income and informal segments of the populations. This modality is important given that while informal workers represent 55 percent of the workforce, they only receive 16 percent of the loans with direct supports. In 2014, 92 percent of the total direct supports allocated to the informal sector were for self-production or improvement. Additionally, self-production tends to be accessible to more vulnerable groups; for example, two-thirds of the beneficiaries under the self-production modality are women, compared to 38 percent under acquisition.

12. **The proposed component will allocate direct supports for self-production of housing solutions through the Program and in accordance with its processes and operational rules.** Self-production is defined as the design and construction process of a housing solution under the direct control of the beneficiary, which can be carried out through self-construction or through the contracting of a third party. Under this component, in addition to the EEs, the beneficiary is required to work in collaboration with an OEO. The OEO needs to be certified by CONAVI and has the main role of providing technical assistance for the communal design and construction, as well as to accompany, supervise, and verify the construction process. The OEO can also execute the works (although this is not required). The OEO can be a social developer; an accredited juridical person; the OREVIS; or a Housing Producing Agency (*Agencia Productora de Vivienda*).<sup>38</sup> Under self-production, the EEs typically are social housing developers, cooperatives, OREVIS, or Multiple Purpose Financial Associations (*Sociedades Financieras de Objeto Múltiple*). All EEs need to be certified by the National Banking and Value Commission (*Comision Nacional Bancaria y de Valores*) or receive funding through a development bank.

13. **This component will be able to cover a deeper share of the total cost of the solution, up to 40 percent for houses below US\$4,865 (40 UMAs).** The self-production modality is targeted toward informal or lower-income beneficiaries, who would not be able to access the market under traditional schemes.<sup>39</sup> The maximum direct support amount is 29 UMA (US\$3,527), and the maximum house value is 140 UMA (US\$17,028 as shown in Table A1.5). The direct support will be disbursed at 30 percent of work’s progress. In this case, the direct support is typically paired with one or multiple micro-credits awarded by the EEs, and the savings by the beneficiary can be provided in kind or manpower.

**Table A1.5. Maximum Direct Support Amount, Prior Savings, and House Cost for self-production in 2016 (US\$)**

Type	Direct Support Amount*	Prior Savings <sup>1/</sup>	Housing solution cost
	Max		Max
Self-production	3,527	5% of solution cost	17,028

Source: CONAVI.<sup>1/</sup> For self-production the savings can be provided in kind.

<sup>38</sup> Juridical person certified under the SHF who manages, develops, and provides technical capacity for self-production projects in an organized, planned, and permanent manner, favoring the beneficiaries’ participation.

<sup>39</sup> Over half of the total direct supports allocated to the informal sector between 2007 and 2014 were for self-production (and 39 percent for improvements).



### Component 3: Strengthening Urban Management (US\$1 million, 100 percent IBRD financing)

14. **The objective of this component is to catalyze the development of well-located affordable housing projects in municipalities across the country.** This component will be critical to enable the Program achieve its sustainability objective. Through this component, and parallel with Components 1 and 2, CONAVI will work closely with selected municipalities to inform urban planning instruments and address critical regulatory barriers that lock well-located urban land for affordable housing development.<sup>40</sup> This component will develop technical studies to inform urban planning and management instruments to spur smart transit-oriented development, unlock access to vacant serviced land, and allow inclusionary zoning and densities in well-serviced areas.<sup>41</sup> Revising and updating local land-use plans and policies can lead not only to an increase in well-located new housing construction and containment of housing cost growth but also to strengthening local economies, better leveraging limited financial resources, protecting homeowners, and increasing connectivity between housing and transportation, jobs, and amenities.<sup>42</sup> It will also add value by providing municipalities alternatives to costly low-density urban development and supporting compact, sustainable urban forms. As such, it is expected to foster the necessary conditions (and serve as a demonstrative example) at the local level that will allow for a more successful Program in the medium term.

15. Local governments use two types of planning instruments: (a) general-level Municipal Development Plans (*Planes de Desarrollo Urbano Municipal*, PDUs) and (b) location-specific Partial Urban Development Plans (*Programas Parciales de Desarrollo Urbano*, PPDUs); Master Plans (*Planes Maestros*, PMs); and zones of influence [*Poligonos de Actuacion Urbana*, PAUs].<sup>43</sup> This component will finance analytical and technical studies to inform PPDUs, PMs, or PAUs (for which municipal council approval is not required) for well-located projects that incorporate affordable housing in U1 and U2 zones.<sup>44</sup> Examples of activities that could be financed under this component are housing demand diagnostics for specific cities or urban areas; infrastructure requirement analyses to inform PMs for urban renovation and/or densification; technical-prefeasibility studies; architecture and urban design studies; financial structuring for affordable housing projects (for example to use land-value capture as a source of project financing); and citizen awareness campaigns or development of communication and dissemination materials. The estimated costs per activity are US\$200,000 for technical and analytical studies supporting the formulation of PPDUs, PMs, or PAUs and US\$120,000 for other activities. Ten municipalities will be supported through this component over the lifetime of the project. The experience gained as part of this component will be gathered and disseminated to municipalities across the country among relevant stakeholders.

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<sup>40</sup> These barriers include low capacity for land management and assembly, limited project finance and management experience, outdated or burdensome zoning and development standards, lack of land-value capture tools, and so on.

<sup>41</sup> The project will seek synergies with the Mexico Urban Transport Transformation Project (P107159) and the Mexico GEF Sustainable Transport and Air Quality (P114012).

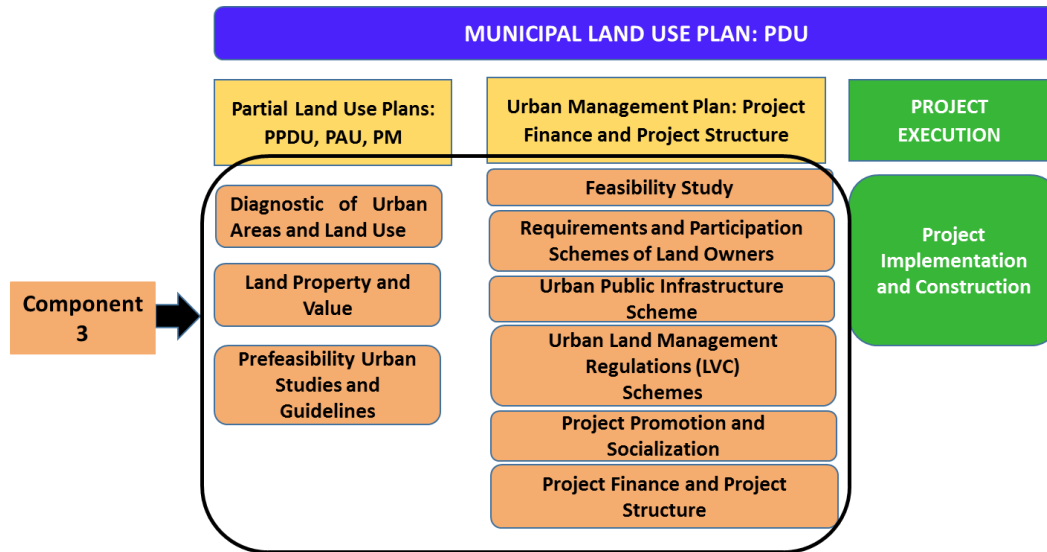
<sup>42</sup> The White House. 2016. *Housing Development Toolkit*.

<sup>43</sup> PDUs are medium term and require municipal council approval. Partial plans are approved by municipal authorities provided they are consistent with the PDU.

<sup>44</sup> PPDUs include an assessment of the existing infrastructure capacity as part of the diagnostic analysis. It is also estimated that most cities have the infrastructure capacity to allow for a modest densification. (see Centro Mario Molina. 2015. *Metropolitan Profile: Growth and Carrying Capacity Scenarios in 59 Metropolitan Areas*).



Figure 1.2. Instruments and Studies to be Financed under Component 3



16. An in-depth technical review of CONAVI’s Program and its ability to address housing demand in Mexico was conducted as part of the MX Urban and Housing PA (P147899). Key findings are summarized in Table A1.6.

Table A1.6. Summary of Key Findings

<b>I. Sector Fundamentals</b>
(a) The housing deficit remains high at almost 30 percent of the housing stock (9 million) as of 2014 despite substantial increases in the housing supply in the last 15 years.
(b) Annual household formation is expected to gradually decrease in the coming decades (averaging 575,000 between 2015 and 2030); still, to meet projected demand and address the current quantitative deficit approximately 900,000 new units would need to be built annually until 2030. On average, about 500,000 units per year were built formally between 2007 and 2014.
(c) Formal supply represents about 60 percent of the total housing units built between 2008 and 2014. The remainder corresponds to units built informally, many of which do not meet minimum quality and safety standards and add to the qualitative deficit figures.
(d) Two-third of the formal units built between 2010 and 2014 fall in the popular or <i>Económica</i> market segment with an average price of MXN300,000 or less and an average size of 50 m <sup>2</sup> or less.
(e) More than 1.2 million houses were financed annually between 2007 and 2013, an increase from 800,000 loans in 2004. The increase in lending for existing housing from nonexistent in 2004 to 16 percent in 2014 is noteworthy and an indication of a shift in the housing market.
(f) The increase in housing loans is supported by a substantial increase in public lending, specifically by INFONAVIT which increased its lending activity from 300,000 to 500,000 loans during that period.
(g) Outstanding mortgage loans represented 9.7 percent of GDP in 2014 (compared to 6.7 percent in 2000).
(h) Sixty percent of the total number of housing loans are for households earning 4.1 UMAs/month or less (house prices of MXN302,000 or less).
(i) House prices (national) increased by 0.6 percent annually in real terms between 2006 and 2014.
<b>II. Structural Components of the Program</b>
(a) The Program has successfully stimulated housing supply: about 20 percent of the formal units built



between 2007 and 2014 were partially financed by CONAVI's up-front direct support Program. The coordination between CONAVI and other housing finance actors, INFONAVIT in particular, has been key to the success of the program.

- (b) Overall, the Program is well-targeted and has enabled access to credit for home purchases or home improvements for low- and very low-income households: 77.8 percent of direct supports for home purchases and 75.7 percent of direct supports for home improvements went to households earning less than 3 UMA.
- (c) The depth of the up-front direct support is modest relative to house prices and has remained stable at an average of about 20 percent of the total purchasing price and 40 percent for improvements, and the combination of scale and direct support size appears fiscally sustainable.

**III. Challenges Ahead**

- (a) The main objective of the new location criteria remains largely unmet: construction of new qualifying affordable units is still happening mostly on the periphery, although further analysis will have to be done to understand whether the peripheral developments are adjacent to existing urban areas and are serviced well. Only 3.2 percent of projects financed with direct supports were built in central areas (U1); 17.9 percent in U2 areas; and over three-quarter of projects were built in peripheral areas (U3: 40 percent, *Fuera de Contorno*: 38.9 percent). In other words, it remains difficult or impossible for the demand-side direct supports (including location- direct supports) to compensate for land price and other supply-constraint differentials between center and periphery, even for households at the 5 UMA levels.
- (b) At the same time, the data on U2 areas shows that these locations have the potential for subsidized housing but require additional supply incentives to reach scale. Affordable units do not need to be at the center of the city where land is the most expensive, but care needs to be taken that there is access to jobs and services.
- (c) Units developed on the outskirts without proper accessibility to jobs, services, and amenities do not lead to wealth creation for the beneficiary households—an important objective for a Program so strongly biased toward home ownership. These units have very limited appreciation over time (if at all), a fact that is compounded by high levels of vacancy in the developments. More analysis is required to assess whether recent locational guidelines have improved peripheral housing projects and whether these developments are adjacent to existing infrastructure, employment, and social amenities.
- (d) Rigidities at the urban policy level, rather than land availability, appear to be the main hindrance to the expansion of the supply of inner-city affordable housing as evidenced by the fact that lack of supply is persistent across city size. For all cities, the share of subsidized units built in U1 is less than 10 percent and except for cities with population of above 1 million, the share built in U2 is less than one-third. As there are no incentives for the local governments to plan and manage urban growth for a more compact city development, the incentives provided by the Program for new housing construction lead to an inertia in urban expansion. Additional policies and measures to demand-side up-front direct supports are needed to increase the incentives and financial viability for affordable housing within the city boundaries.



## ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY : Mexico

Improving Access to Affordable Housing Project

### Project Institutional and Implementation Arrangements

1. Project implementation will be carried out by CONAVI through the utilization of the Program's existing administration systems. CONAVI is a decentralized unit of SEDATU with separate legal personality and budgetary autonomy, and is charged with implementing and supervising Mexico's National Housing Program. The Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*, SHCP) transfers federal budget funding to CONAVI for the Program. A *Contrato de Mandato* (Mandate Contract) will be signed between the Borrower (through SHCP and CONAVI, as the Project implementing entity) and NAFIN, as the fiduciary agent, for purposes of Project implementation. The key aspects of the implementation arrangements are summarized in the following paragraphs.

#### Component 1: Acquisition of Housing Units (US\$48.75 million, 100 percent IBRD financing)

2. As per the Program's rules, in addition to savings, beneficiaries are required to have an approved loan to purchase a unit. To ensure smooth implementation, CONAVI operates the Program in partnership with the entities that grant the loan, called the EEs. The EEs can be private commercial banks and other lending institutions.<sup>45</sup> To register as an EE, entities must undergo a detailed due diligence review from CONAVI and meet a series of eligibility criteria: (a) provide documentation regarding its legal constitution and proof of being a financially regulated entity;<sup>46</sup> (b) opening a special account for the implementation of the Program; (c) provide detailed financial information;<sup>47</sup> (d) provide the Procedures Manual for credit origination; and (e) present the criteria used for promotion and communication. Once the EE is approved, CONAVI signs Adhesion Agreements with the EE under which the latter assumes responsibility for directing the direct support to qualified recipients and ensuring its application according to CONAVI guidelines. As per the Adhesion Agreements, CONAVI retains the power to audit and investigate the performance of the EEs and can levy penalties, require reimbursement of direct support issued, or terminate their involvement in the Program if they are found in violation of the agreement.

3. Figure A2.1 details the process for home purchase for a beneficiary under Component 1. First, the EE will promote the direct support to potential beneficiaries. If the person meets the eligibility requirements for the direct support, the EE will submit an application for review and approval by CONAVI and the RUV. The RUV reviews the locational and physical characteristics of the units. The EEs are responsible for ensuring that beneficiaries know and comply with the Program rules and that the unit has passed an occupancy inspection. CONAVI verifies beneficiary eligibility and disburses a direct

<sup>45</sup> In 2015, there were 45 registered EEs. Typically, for acquisition, the EE is a national housing entity or a bank. For self-production, these tend to be banks, OREVIS, savings institutions, and financing enterprises. Prospective EEs must present constitutive legal and governance documentation, a financial analysis, a commercial/market analysis of populations served, and an Operations Manual.

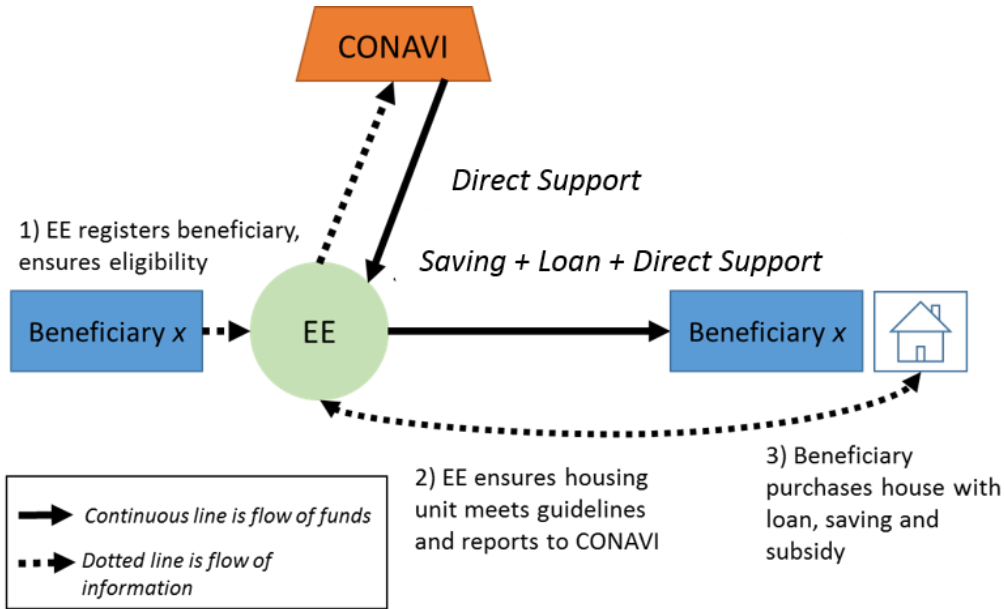
<sup>46</sup> All EEs need to be certified by the National Banking and Value Commission or receive funding through a development bank.

<sup>47</sup> Including reports for the previous three years and information on nonperforming loans values for the mortgage portfolio.



support voucher to the EE under the beneficiary’s name, which along with the loan and savings component, is applied for the purchase of the unit.

Figure A2.1. Housing Acquisition



**Component 2: Self-production of Housing Units (US\$50 million, 100 percent IBRD financing)**

4. Implementation for self-production also relies on the EEs, which may provide at least one micro-credit to eligible beneficiaries. In addition, beneficiaries are required to work with an OEO, which is responsible for providing technical assistance to the beneficiary on technical design and construction. The OEOs accompany, supervise, and verify the construction process. The OEO also typically execute the works (although this is not required). The EEs are required to sign cooperative agreements with the OEOs, and together they develop the financial and technical specifications of self-built units that are available to direct support recipients. As with the acquisition option, the EEs are responsible for ensuring compliance with the Program’s rules, ensuring that direct support recipients meet the Program’s requirements, and confirming that they have proof of ownership (or possession) of the land. The EEs also report and work on CONAVI’s behalf to ensure that the OEOs comply with the Program rules and guidelines on cost, design, labor arrangements, construction, and timely completion of the unit.<sup>48</sup>

5. Typically, the OEOs are for- or nonprofit or social housing developers, state or municipal housing authorities, or similar organizations that have been approved by CONAVI and are included in the OEO Registry.<sup>49</sup> To register as an OEO, entities have to pass a thorough revision process of their legal

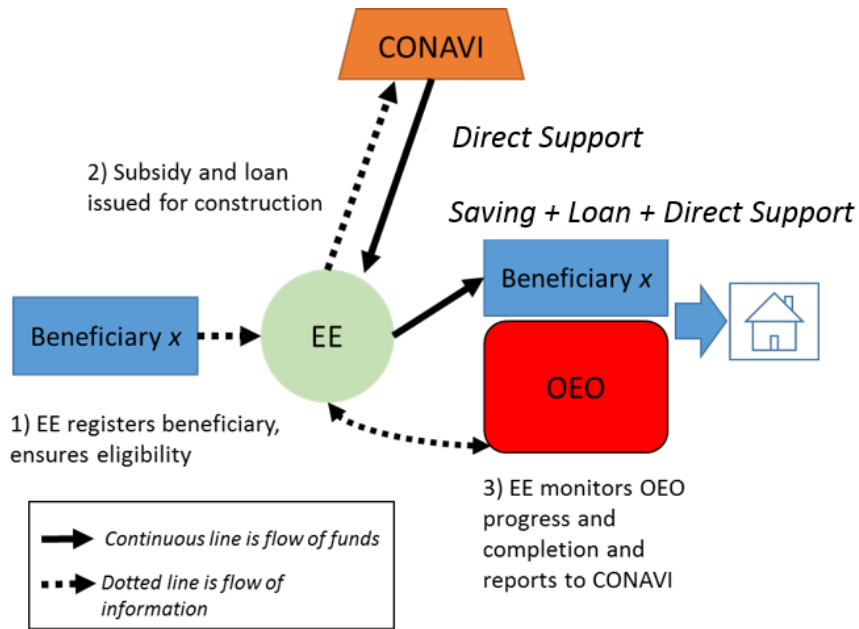
<sup>48</sup> These activities include verifying the costs and technical specifications of the planned unit, ensuring that the unit will not be built in a risk zone, and ensuring that the direct support recipient is the owner/possessor of the land.

<sup>49</sup> In 2015, there were 60 registered OEOs involved in the Program. The details of the registration process and the OEO and EE registries are published on CONAVI’s website (<http://www.gob.mx/conavi>).



conformity and of their financial, administrative, operational, and technical capacity.<sup>50</sup> CONAVI can also terminate the registration of the OEO on the basis of any noncompliance resulting from supervision, verification, or evaluation processes. Figure A2.2 details the process under Component 2. Similar to Component 1, the EE promotes the direct support to potential beneficiaries, reviews compliance with eligibility requirements, and submits an application for review by CONAVI.<sup>51</sup>

Figure A2.2. Self-construction of Housing



**Component 3: Strengthening Urban Management (US\$1 million, 100 percent IBRD financing)**

6. Component 3 will be implemented in parallel with Components 1 and 2 directly by CONAVI in coordination with the selected municipalities. For the implementation of this component CONAVI will enter into Collaboration Agreements with each of the selected municipality to ensure their collaboration in the technical implementation of the activities. The selection process for municipalities and activities to be financed under this component are mentioned in the following paragraphs.

7. **Eligible municipalities should have a population of 100,000 or more and above average population growth.** To be eligible under this component, municipalities must have (a) a population of 100,000 or more and (b) be experiencing population growth rates above the national average per year. The project will prioritize those with housing deficit or demand above the national average and those which have a higher competitiveness index.

<sup>50</sup> For example, CONAVI revises the construction volume produced over the previous three years; the design, construction, and supervision capacities of the OEO staff; the adaptation of the prototypes to the region’s specificities; and the user involvement and satisfaction. A field visit is also included as part of the registration process.

<sup>51</sup>The direct support is disbursed fully once at least 30 percent of works have been completed. The construction of the unit must be completed within 150 days from the disbursement of the direct support, and verified with geo-referenced photos of the housing unit.



8. **Pilot projects to be supported will have to be at an advanced preparation stage, include affordable housing, and be well-located.** Specifically, eligible projects will need to (a) be located in U1 or U2; (b) include affordable housing; and (c) be permitted under the approved PDU framework. Given the catalytic objective of this component, the criteria need to focus on the readiness of the proposed pilot project, particularly on the existence of the legal framework necessary for its implementation.

9. **The selection process will be carried out by CONAVI's Sub-directorate of Housing Analysis, Planning and Sustainability.** Municipalities will present specific proposals to CONAVI for support under this component. The selection of municipalities and subsequent projects, will be led at the technical level by CONAVI's Sub-directorate of Housing Analysis, Planning, and Sustainability based on the eligibility criteria and considering: (a) project readiness and viability; (b) replication potential; and (c) existing institutional capacity for implementation. The World Bank will provide a technical no-objection to such selection. Given the catalytic objective of this component, the criteria will focus on the readiness of the proposed pilot project, and on the existence of the supporting legal framework necessary for its implementation. The process of selection will be described in detail in the Operations Manual.

10. **Supervision of the Program.** The Program has robust technical supervision systems in place to ensure the correct use of resources. According to the agreement signed, all the EEs must submit information on beneficiaries and on characteristics and location of the units to CONAVI and the RUV. The RUV, a national geo-referenced registry database on housing, validates the information, both through the platform and physically through verifiers. Verifiers monitor physical and financial progress, as well as the habitability of the housing units. The verification visits are designed to maximize effectiveness and reduce human errors through the use of photos of the sites<sup>52</sup> and detailed checklists to attest basic habitability. The RUV confirms to CONAVI when the eligibility criteria have been met, through the emission of a technical verdict (*Dictamen Técnico Único*) for new housing or through completion of the final verification module for self-production. CONAVI then disburses the direct support to the EE (or progressively for self-production).<sup>53</sup> In addition, CONAVI also performs an ex post verification through an independent audit, which includes periodic field visits to inspect housing units and verify the corresponding information in the database.<sup>54</sup>

11. The implementation agency risk is Low. CONAVI has been operating the Program over nine years, and the implementation team is well-staffed, with individual FM, procurement, social, and technical units. CONAVI also has extensive capacity and mechanisms in place, for the monitoring and evaluation of the Program. The World Bank will provide initial trainings in safeguards and fiduciary World Bank requirements, as well as periodical training aimed at building capacity as needed. For Component 3, the World Bank and CONAVI will support and accompany local governments in the preparation, procurement, and supervision of the technical studies for urban planning and management instruments.

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<sup>52</sup> The photos of the site are uploaded into RUV's georeferenced platform at 30 and 100 percent advancement. For example, this is used to ensure that the house is built on the exact lot that was approved and for which the prototype was submitted.

<sup>53</sup> For self-production, the direct support can be disbursed at 30 percent of advancement of the works. However, CONAVI monitors the completion of the solution and can ask for the reimbursement of the direct support from the EE in case of noncompliance, for example, if the unit is not completed in 150 days from initiation, if it does not meet quality standards, or if it is not fully completed.

<sup>54</sup> This sample gives a level of confidence of 95 percent and 5 percent error margin.



12. **Financial administration.** NAFIN will act as the financial agent of the borrower with regard to the investment loan. Under this arrangement, CONAVI will submit eligible expenditure reports based on direct supports disbursed to NAFIN. NAFIN will review these reports and manage the loan disbursement to reimburse SHCP. It will also provide other implementation support and oversight, based on its long history of previous experience with World Bank-financed projects in the country.

13. The project’s Operations Manual will provide a detailed description of implementation arrangements, including the roles and responsibilities of CONAVI and other stakeholders. This includes detailing the preparation of progress reports along with details regarding the performance of fiduciary functions such as FM, reporting, and procurement activities.

**Financial Management**

14. This section documents the results of the FM Assessment of the Improving Access to Affordable Housing Project (the Project), as conducted by the World Bank staff in accordance with OP/BP 10.00 and the Guidelines for Assessment of Financial Management Arrangements in World Bank-Financed Projects.

**Description and Assessment of Project FM arrangements**

15. **Country issues relevant to the proposed Project.** In general, public FM in the Mexican federal administration relies on strong budgeting, treasury, accounting, and control systems. These FM country systems apply to project transactions because World Bank-financed operations form an integral part of the public budget and are executed accordingly. Moreover, specific financial reporting and auditing arrangements have been agreed with the Government for projects financed by multilateral international institutions.

16. **Implementing entity.** According to Article 18 of the Ley de Vivienda, CONAVI is a decentralized institution, included in the group coordinated by SEDATU, as established in the “Acuerdo por el que se agrupan las entidades paraestatales denominadas Comisión Nacional de Vivienda, Comisión para la Regularización de la Tenencia de la Tierra y el Fideicomiso Fondo Nacional de Habitaciones Populares, al sector coordinado por la Secretaría de Desarrollo Agrario, Territorial y Urbano,” published in the Official Gazette on February 11, 2013. As explained elsewhere in this Project Appraisal Document, other entities, particularly from the social and housing sectors, play critical roles in the Program. However, CONAVI will coordinate all relevant FM arrangements for the project.

*Table 2.1. Disbursement Table*

Category	Amount of the Loan Allocated (US\$)	Percentage of Expenditures to be Financed (inclusive of taxes)
Grants for Eligible Beneficiaries under Part 1 and 2 of the Project and Consultants’ Services, Non Consultants’ Services, under Part 3 of the Project	99,750,000	100
Front-End Fees	250,000	100



Interest Rate Cap or Interest Rate Collar premium	0	0
<b>Total Amount</b>	<b>100,000,000</b>	—

17. **Retroactive financing.** The proposed Project will include retroactive financing not to exceed US\$20,000,000 for payments made in the 12 months prior to the signing date of the Loan Agreement, for eligible expenditures under the Project.

18. **Financial reporting.** CONAVI will use the SAP accounting system for preparing the proposed Project’s accounting records, which is a commercial software with adequate capabilities to recognize different levels of accounts and to issue financial reports. CONAVI will prepare biannual interim unaudited financial reports and the project’s annual financial statements, which will be audited by an independent audit firm selected by the Civil Service Secretariat *Secretaría de la Función Pública* (SFP) under terms of reference acceptable to the World Bank.

19. The financial reports will be presented by the CONAVI to NAFIN for further submission to the World Bank, as follows:

**Table 2.2. Schedule for Financial Reporting**

<b>Report</b>	<b>Due Date</b>
Calendar semester unaudited project IFRs	Within 45 days after the end of each calendar semester
Annual audit report on project financial statements and eligibility of expenditures	Within six months after the end of each calendar year of loan disbursements (or other period agreed with the World Bank)

20. **Internal control and internal auditing.** In addition to the country’s budget regulations and procedures, CONAVI is subject to the Federal Public Administration Internal Control Standards issued by the SFP, which as a whole provides for sound internal control arrangements for the proposed Project.

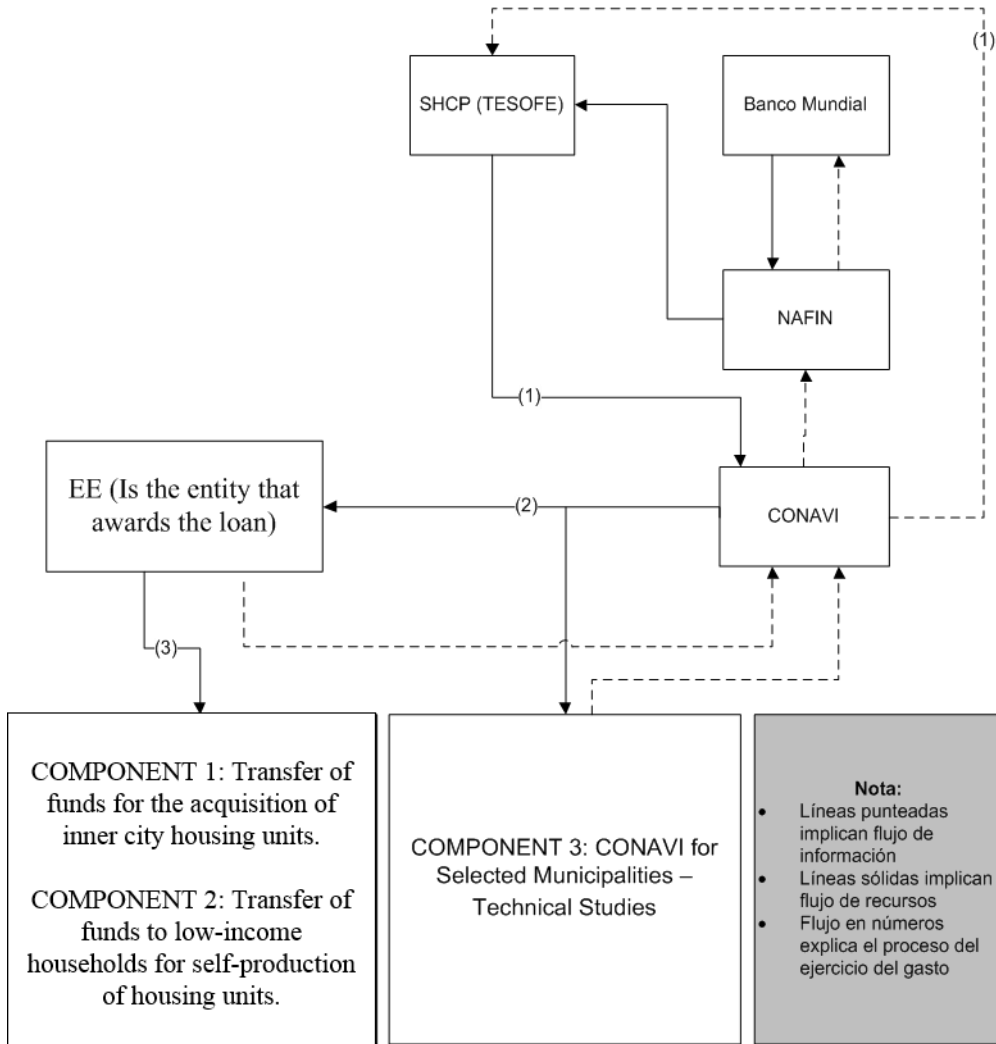
21. The internal auditing function is carried out by the Internal Control Unit (*Órgano Interno de Control*, OIC), which reports to the SFP and must follow the Public Audit Standards and Guidelines issued by the SFP. The latter also approves the OICs’ annual work programs, oversees their operation, and receives its audit reports. Adequate systems are in place for timely follow-up to internal audit observations and implementation of recommendations.

22. **Beneficiary payments.** To provide assurance to the delivery of monetary direct supports to the Program’s beneficiaries, CONAVI exercises a process for integration and payment of direct supports.

23. **Flow of funds.** The general arrangements for the flow of funds are depicted in Figure 2.3:



Figure 2.3. Flow of Funds



Note:

1. CONAVI pre-finances project expenditures from the national budget (PEF)
2. CONAVI selects beneficiaries and transfers funds to EE for components 1 and 2 and directly contracts and pays for component 3.
3. EE transfers funds directly to the developers or the OEO to execute activities for the beneficiaries.
4. The FM Project Units within CONAVI will review and reconcile the financial information, determine the amount of eligible expenditures, and prepare the financial and disbursement information required by the Bank, and will send it to NAFIN.
5. NAFIN will review and submit the Statement of Expenditures (SOEs) to the Bank through the client connection system.
6. The Bank will reimburse the eligible expenditures into the Project account designated by NAFIN.
7. NAFIN will reimburse the program funds to TESOFE.



## Disbursements

24. This project will use primarily the reimbursement method to disburse to the beneficiaries' eligible expenditures (pre-financed by the Government) into a project account in U.S. dollars opened by NAFIN.

*Table 2.3. Disbursement Arrangements*

<b>Activity</b>	<b>Description</b>
Disbursement method	Reimbursement of eligible expenditures (pre-financed by the Government) into a project account in U.S. dollars designated by NAFIN
Supporting documentation	Statement of Expenditures, <sup>55</sup> invoices, and receipts, including copies of agreements between CONAVI (through the EE and beneficiaries), with evidence of transfers

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<sup>55</sup> All Statement of Expenditures supporting documentation will be available for review by the external auditors and World Bank staff at all times during project implementation and at least until one year after the audit report covering the last disbursement has been received by the World Bank.



Retroactive expenditures	<p>Eligible payments</p> <ul style="list-style-type: none"> <li>▪ that do not exceed 20 percent of the loan amount;</li> <li>▪ made by the borrower up to one year before the date of the Loan Agreement; and</li> <li>▪ the retroactive expenditures will be subject to the same systems, controls and eligibility criteria described above. Those expenditures will also be subject to the regular project external audit.</li> </ul>
Other procedures	<p>Other disbursement procedures are not expected to be required; however, upon request from NAFIN and subject to the World Bank's approval, direct payments may be made for eligible expenditures to a third party (supplier or consultant).</p>

25. **External audit.** Annual audits on project financial statements and eligibility of expenditures will be performed in accordance with the World Bank policy, as reflected in the audit terms of reference and memorandum of understanding agreed between the World Bank and the SFP. An independent audit firm selected by the SFP and acceptable to the World Bank will conduct the project audits.

26. The Federal Supreme Audit Institution (*Auditoría Superior de la Federación, ASF*) executes regularly a number of performance, financial and compliance audits on the Program. The results from these audits are made public in the annual audit reports on the Federal Public Accounts. These external checks provide additional assurances about the Program operation and FM.<sup>56</sup> In accordance with reports from the audit control and follow-up system, CONAVI has promptly taken actions deriving from the ASF audits.

27. **Written procedures.** The Program operation is governed primarily by its annual operational rules to which a number of procedures and guidelines are linked. Given available documentation, only those FM procedures that are specific to the World Bank loan will be compiled in a concise project FM Manual. The first draft of the manual will be submitted to the World Bank before appraisal, with the incorporation of some comments to be agreed with CONAVI.

**Procurement**

28. Procurement for the proposed project would be carried out in accordance with the World Bank's 'Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by the World Bank Borrowers', dated January 2011 and revised July 2014; 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers', dated January 2011 and revised July 2014; and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general in the following paragraphs. For each contract to be financed by the loan, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the borrower and the World Bank in the Procurement Plan; no need for prequalification was identified during the preparation of the project. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

<sup>56</sup> ASF audit reports on the Federal Public Accounts are issued 15 months after the end of the calendar year. Hence, while they remain an important source of information for fiduciary purposes, they cannot be used by themselves to meet the World Bank's project financial audit requirements.



29. Procurement under the proposed project will be conducted as in the following paragraphs under each of the components.

30. **Component 1.** This component will finance up-front direct supports granted under the Program for eligible lower-income beneficiaries for the acquisition of new or existing finished housing following CONAVI's operating rules. No procurable activities were identified under this component though the loan is financing direct supports/grants that will complete price of the housing solution with a credit provided by the EE and savings from the beneficiary.

31. **Component 2.** This component will finance direct supports/grants that will complete the cost of the self-production of basic housing with a credit from an EE and saving from the beneficiary. The grants are for very small amounts estimated up to US\$3,572 of a total cost of US\$17,028 of the housing solution. Under this component, the identified procurement activities are the purchases of construction material by the OEOs that support beneficiaries of the program. Beneficiaries of the program receive construction material, support in the construction of their housing solution, orientation and assistance on construction techniques, contract managements, and basic financial literacy from the OEOs. To be recognized by CONAVI, the OEOs have to go through a strict accreditation process which include financial, technical, and administrative aspects. The process includes a training program provided by CONAVI and the verification of the evidence that they are in the capacity to provide technical assistance to beneficiaries of the Program. This technical assistance must include the following aspects: design and construction, constructive materials, constructive processes and systems, and technical inspection to optimize the quality and cost of the housing solution. The OEOs include in their manuals price reference of the materials to be used in the housing solutions. All the housing solutions are subject to an in situ verification and the resources of the direct support are authorized based on the construction progress. Under this component, the proposed method would be the commercial practices (under provisions of paragraph 3.13 of Procurement Guidelines) of the OEO which are included in their manuals and the minimum requirements will be stated in the Operational Manual; commercial practices are diverse depending of the facilities of the construction site but in all cases the they have to be accredited by CONAVI. In some cases, the self-production of basic housing include the community participation especially with in kind contribution of labor, which however involves no procurable activities. The OEOs are subject to periodic verification and audits. If any accredited OEO fails to provide technical assistance or to meet any or the requirements, it could be disable to continue participating in the Program.

32. **Component 3.** This component will finance consultant services to be hired directly by CONAVI to support municipalities to develop and strengthen urban planning instruments for sustainable housing sector expansion.

33. **Goods and works.** Goods and works under Component 2 would be procured by OEOs following commercial practices as described earlier and detailed in the Project Operational Manual.

34. **Selection of consultants.** Consultant services under the project will include technical support to the municipalities participating in the project to develop and strengthen their urban planning instruments. These activities will be procured following the World Bank's policies and using harmonized documents.

- (a) **Short lists of consultants** for services estimated to cost less than US\$1,000,000 equivalent per contract may be composed entirely of national consultants in accordance with the



provisions of paragraph 2.7 of the Consultant Guidelines. Universities, government research institutions, public training institutions, and nongovernmental organizations in some specialized fields of expertise could participate in the provision of consulting services as per World Bank Procurement Guidelines and policies.

- (b) **Firms.** Most contracts for firms carried out by CONAVI are expected to be using Quality- and Cost- Based Selection Method. Consultant assignments of specific types, as agreed previously with the World Bank in the Procurement Plan, may be selected with the use of the following selection methods: (a) Quality-Based Selection; (b) Selection under a Fixed Budget, especially for works supervision contracts; (c) Least-cost Selection; (d) Selection Based on Consultants' Qualifications, for contracts estimated to cost below US\$300,000 equivalent; and exceptionally (e) Single Source Selection, under the circumstances explained in paragraph 3.9 of the Consultant Guidelines.
- (c) **Individuals.** Individual consultants will be hired to provide technical advisory and project support services and selected in accordance to section V of the Consultant Guidelines.

35. **Others.** The World Bank has agreed with the client the conditions in which the proceeds of the loan are transferred to the final beneficiaries (ensuring that this is done with transparency and equity).

36. **Assessment of the CONAVI to implement procurement.** CONAVI has previous experience implementing World Bank procurement policies and procedures, as well as with other multilaterals with similar procurement procedures. Experienced staff on World Bank's procurement policies and procedures will be hired and retained to support the implementation of the project.

37. **Procurement Plan.** A Procurement Plan for the first 18 months of the Program has been prepared by the executing agency and provides the basis for the procurement methods. The activities and corresponding amounts of this Procurement Plan will be confirmed and perfected once project implementation begins. This plan will be available on the World Bank's external website and in STEP or any other system agreed with the Bank. The Procurement Plan will be updated in agreement with the World Bank annually or as required to reflect actual implementation needs and improvements in institutional capacity.

## **Environmental and Social (including safeguards)**

### *Social*

38. The project is expected to have positive social impacts as it is expected to increase access to housing for low-income households. Since its inception, the Program has provided around 1.5 million direct supports to an equal number of beneficiaries. Most of the direct supports have benefited households earning less than 3 UMAs (77.8 percent for home purchases and 75.7 percent for home improvements). Since 2016, the Program has also improved its targeting strategy to reach poorer and vulnerable households by adjusting the direct support amounts and by prioritizing self-production of housing solutions. Such solutions are more appropriate for people employed in the informal market and excluded segments of the population. As an example, 60 percent of the total direct supports for self-production of houses are received by women). To that effect, Component 2 is designed to provide



financing solutions for the lowest-income brackets on the target population by focusing on direct supports for self-production.

39. **Social Assessment.** A SA<sup>57</sup> has been conducted to evaluate the potential social impacts and possible mitigation actions derived from the project. The assessment concluded that overall CONAVI has incorporated good practices to address the needs of the most vulnerable, including the following:

- Delivering targeted solutions to the vulnerable and excluded population. Specifically, through the gender inclusion strategy and through a program that targets the families of migrant workers. The gender inclusion strategy includes a specific program for women-headed households earning less than 4 UMAs which combines the up-front direct support for self-construction with a credit guarantee from the SHF, a loan from selected financial intermediaries, and additional direct supports from the state-level housing institution toward a self-production unit. The *Construye en tu Tierra* program is a program targeting migrant's families, which combines the up-front direct support for self-production with a guarantee and state-level contribution toward allowing migrants' families to build a self-production unit. These schemes adapt the existing direct support program to target specific populations incorporating lessons learned to ensure greater effectiveness.
- Recognizing the importance of ensuring sustainable housing solutions for indigenous peoples by partnering with indigenous organizations to tailor the construction of homes in a way that is culturally attuned to their lifestyle and environmental conditions. For example, specific solutions were identified in Quintana Roo where efforts were made to design homes to incorporate demands and cultural norms of the local Maya groups.

40. The SA also highlighted the need to systematize and mainstream the good practices already in place and strengthen citizen participation mechanisms. The decentralized way in which the Program is implemented allows for nationwide coverage with relative flexibility, yet it poses a challenge to having a fluid, direct contact between CONAVI and the beneficiaries (as these typically liaise only with the EEs or the OEOs). The SA identified the need to strengthen the mechanisms for citizen participation. CONAVI, with support from the World Bank, is in the process of establishing a new citizen participation system, based on a call-center and registry system to allow for more systematic and direct citizen participation from potential and actual beneficiaries.

41. The project will support an existing program that has a national-level coverage, including states where indigenous peoples are present, and thus, OP/BP 4.10 is triggered. While the project is not expected to have negative impacts on indigenous peoples, a SA and an IPP have been prepared with the intent to identify positive and/or negative impacts, mitigation measures if necessary, and particularly ways to maximize potential benefits for indigenous peoples. The project has already been successful in providing low-income housing solutions to 1,070 indigenous municipalities in 2,424 indigenous municipalities existing in Mexico (Table A2.5).

42. **Indigenous Peoples Plan.** Under the project individuals (not groups or communities) apply for assistance to either build or buy a home commensurate with their economic and financial capacity.

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<sup>57</sup> *Evaluacion Social, Proyecto de Vivienda Intraurbana*, CONAVI, September 2016.



Beneficiaries must use the direct support to obtain or improve housing on privately-owned land. As such, the project is not expected to result in any instances of involuntary land acquisition and/or displacement of people throughout the country, irrespective of whether they are indigenous or nonindigenous populations. Given the voluntary and individual nature, activities that could potentially trigger eminent domain or the seizing of lands where informal settlers reside are not expected; thus, OP/BP 4.12 (Involuntary Resettlement) is not triggered.

43. The project will strengthen CONAVI’s effectiveness in reaching out to indigenous peoples. To that effect, a specific IPP has been prepared by CONAVI. The IPP proposes to strengthen and improve CONAVI’s capacity to engage indigenous peoples by building on CONAVI’s prior experiences. The IPP strategy will include the following components: (a) strengthening the capacity of the OEOs to reach out more systematically to indigenous peoples to increase the number of potential indigenous peoples benefitted by the Program, and served by the Program in a culturally appropriate manner (for example, through housing solutions adequate to their cultural uses and customs); (b) ensuring broad dissemination of information about the housing direct supports program among indigenous communities; and (c) strengthening the existing citizen empowering mechanism to address any possible issues and/or complaints and bring them to effective resolutions.

44. The consultations covered two key regions of Mexico (Yucatan and Campeche), chosen on the basis of: (i) relative density of Indigenous Population (> 40 percent of the total population); and: (ii) localities with indigenous populations that receive at least one type of assistance from the Program, among the three modes of Improvement and Self-Production. Participants in the consultation sessions included: (i) previous beneficiaries who received housing direct supports from 2015 as well as possible new target beneficiaries; (ii) representatives of Indigenous Peoples’ traditional authorities as well as municipal representatives; (iii) representatives from the Consultative Council of the National Commission for the Development of Indigenous Peoples *Comisión Nacional para el Desarrollo de los Pueblos Indígenas*, (CDI); and (iv) representatives of OEOs. The IPP was disclosed in-country and on the World Bank’s website on April 11<sup>th</sup>, 2017.

**Table 2.4. Indigenous Municipalities with CONAVI Support for Housing Solutions**

Municipality Type	Total Number of Municipalities	Support Modality						Total
		Self-production	Serviced Lot	Improvement	Rent	New Housing	Used Housing	
Indigenous municipalities	624	140	—	123		13	19	214
Municipality with indigenous presence	239	100	1	99	2	96	136	195
Municipalities with dispersed indigenous population	1,561	387	2	291	—	192	259	661
<b>Total</b>	<b>2,424</b>	<b>627</b>	<b>3</b>	<b>513</b>	<b>2</b>	<b>301</b>	<b>414</b>	<b>1,070</b>

45. The project will rely on existing implementation methodology that CONAVI and its partners have been developing since 2007. The project will benefit from CONAVI’s solid track record and credibility on the ground. The social assessment revealed that CONAVI has been particularly effective in (a) reducing



the housing deficit among low-income and indigenous beneficiaries; (b) developing financial skills among beneficiaries; (c) promoting housing market formalization in rural and semirural areas; and (d) incorporating cultural and social norms in its Operations Manual when dealing with indigenous households.

46. The project will strengthen CONAVI's effectiveness in reaching out to indigenous peoples. To that effect, the IPP strategy will articulate along three axes:

- Carry out a communication campaign at the national level to ensure the broadest dissemination of information among potential indigenous beneficiaries. The communication campaign will be utilizing the existing network of indigenous organizations at the national and subnational levels and their communication channels to reach the very diverse set of indigenous groups living in Mexico.
- Prepare—in collaboration with indigenous peoples' organizations nationally and regionally—communication material that indigenous peoples' organizations can rely upon to disseminate the key messages of the Program locally. This will include the preparation of pamphlets, visuals, testimonials by existing indigenous peoples' beneficiaries, a consultation process at the subnational level, and the dissemination of information via radio using local languages.
- Improve CONAVI mechanisms to help indigenous peoples' households submit applications and handle special cases that may require additional attention. Particular attention will be given to women-headed households, which are estimated to be approximately 45 percent of the overall beneficiary population.

### *Environmental*

47. The project is expected to yield environmental benefits as the results are expected to improve the efficiency of the urban areas by promoting access to housing in urban areas close to services and jobs. This will minimize the negative environmental effects that would otherwise occur from the development of new vacant or agricultural land for housing, as well as reduce commuting times and congestion to reach urban areas.

**48. Environmental and Social Management Framework.** An ESMF has been prepared by, consulted with, the borrower, and disclosed as per OP/BP 4.01 (Environmental Assessment). The ESMF (a) documents compliance with existing Mexican regulation and with the World Bank safeguards, (b) assesses the acceptability of the Program's mitigation measures in place and develops acceptable ones. The draft ESMF was disclosed in-country, on CONAVI's webpage, on April 11th, and consulted on April 18th, 2017. The results from the consultation process are incorporated into the final ESMF which was disclosed on the World Bank's external website on April 21, 2017.

49. Component 1 has not been identified as having adverse environmental impacts or risks. The project will finance up-front direct supports for the acquisition of finished housing units and as such, no construction-related activities are financed by this component. The Program has extensive mechanisms in place to ensure that the finished housing units selected by the beneficiaries for purchase conform to



the environmental and social standards applicable. During preparation, the World Bank conducted a due diligence review to assess the existing program and associated environmental legislation and processes, and found in general that the approach is aligned with World Bank standards. The only gap identified stems from the possible presence of asbestos or other environmental hazards in existing (used) buildings, which Mexican regulations began to control after 1994. Therefore, existing buildings older than 1994 will be excluded from financing under Component 1. To further strengthen the ability of the Program to monitor for compliance with environmental regulations, the ESMF includes additional recommendations for training and capacity building such as development of inspection and valuator checklists, identifying updates to hazard zone maps, and dissemination of information and brochures for homeowners.

50. Component 2 will finance direct supports for the self-production of housing solutions. Under this component, impacts of small magnitude can be generated from variations or gaps in local (municipal) permitting or zoning, use of non-standard or recycled materials, and inconsistent technical support to homebuilders. Additional risks related to job safety could arise by the lack of personal protective equipment and lack of safety signs. Mitigation measures already in place include the Program's existing requirement that beneficiaries of the direct supports for self-production need to work in partnership with an OEO or an APV who is responsible for demand management and provides technical assistance on design and construction, with the construction process and the habitability of the final solution being verified by third-party certified agents who issue interim and final technical reports. Potential risks in Component 2 were identified due to inconsistencies in the level of OEO performance, and variability in local permitting requirements. This potential risk will be mitigated through the ESMF requirement for an ex-post audit and assessment of Component 2 performance after 12 months of project implementation. The audit will assess the program performance, identify any gaps, and recommend solutions for subsequent implementation. Recommendations to be investigated will likely focus on improvements in OEO practice and may include development of tools such as inspection and screening checklists for environmental aspects (especially review of local permitting and licensing, types of building materials, ensuring basic services are in place, and post-construction clean-up); incorporating available and updated information on high risk zones; providing information and brochures on worker and home health and safety; and other recommendations that may emerge from the audit. Capacity building for the OEOs, inspectors, and beneficiaries is also expected to be important and may be provided through workshops and learning modules.

51. Component 3 is not expected to pose significant environmental or social risks and is expected to bring environmental and social benefits in the selected cities by providing technical inputs for urban planning instruments to enable the development of inner-city, well-located affordable housing solutions. Under this component, the project will finance technical studies and consultancies to inform the urban and land use plans. To mitigate the risk of possible downstream environmental and/or resettlement-related impacts, specific requirements will be included in all TORs for the studies financed, to provide that the scope of work includes: (i) an analysis of the potential downstream effects; (ii) the identification of existing risks, if any; and (iii) the inclusion of proposed mitigation measures in the studies produced, based on the Mexican legislation, and in accordance with the Bank's safeguards.

52. **Grievance Redress Mechanism.** The World Bank's Grievance Redress Mechanisms are addressed through the existing system which enables citizens to file of complaints, suggestions, and information requests. These are supported by the current legal framework in Mexico under the Liaison Unit of the



Federal Institute of Public Information Access and Data Protection and CONAVI's OIC. Additional support to strengthen grievance redress will be included in the implementation of the IPP's Beneficiary Empowerment System, which will provide a two-way communication platform for CONAVI to track current and potential beneficiaries of the Program and provide them information and support to help their decision making.

### **Monitoring & Evaluation**

53. The project will utilize existing data collection and reporting systems to monitor progress on the results indicators. Under the current program, CONAVI tracks information for each beneficiary (income, gender), as well as the geo-referenced *contorno* location of houses purchased with direct transfers. Data for the PDO and intermediate-level results indicators will be reported semiannually and progress will be tracked with regular supervision missions as detailed in this annex.



## ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY : Mexico

Improving Access to Affordable Housing Project

### Strategy and Approach for Implementation Support

1. The Implementation Support Strategy is based on the key project risks identified. The strategy will support CONAVI to achieve the PDO and mitigate outstanding risks detailed in SORT. The plan also includes standard World Bank implementation support (including technical, institutional capacity, fiduciary, and environmental and social safeguards).

### Implementation Support Plan and Resource Requirements

2. Given CONAVI's strong experience in operating the Program, the implementation support level required is considered Moderate. The World Bank will perform on average two implementation support missions per year (plus additional specific missions as required) and biweekly communications, desk-reviews, and field visits, as required, to support implementation.

3. **Technical support.** The World Bank will support CONAVI by providing capacity building to the technical team, reviewing options for strengthening the Program's operation, and supporting the strengthening of the monitoring and evaluation mechanisms. The World Bank will particularly focus on supporting technical implementation of Component 3. The World Bank will accompany the process of selecting suitable pilot projects, providing technical assistance for the revision and preparation of the terms of references for the technical studies, and technically validating the terms of references. The World Bank will also provide technical assistance to the selected municipalities and work with CONAVI and the local government's team in the supervision of the preparation and development of the study.

4. **Financial management.** The World Bank will conduct regular FM supervisions and provide periodical training aimed at building capacity. The project will be annually audited in accordance with terms of reference acceptable to the World Bank. Given the limited experience of the new personnel involved in the project, the World Bank will organize timely capacity building and provide regular support to the team.

5. **Safeguards.** The implementation of safeguards identified in the ESMF and the IPP will be directed by CONAVI in coordination with the safeguards team. The World Bank will ensure the application of safeguards measures during supervision missions, with semiannual reports during project implementation. The World Bank will also support CONAVI in the development of capacity-building material on occupational safety and environmental and social best practices.

6. **Monitoring and evaluation.** The World Bank will support CONAVI in the design and setup of a communication platform to improve outreach and establish a direct engagement with the beneficiaries. The World Bank will also support the definition of baselines and the identification of the monitoring methodology and responsibilities for the project's monitoring and evaluation.



7. The project will require the following Implementation Support Plan in the first year. The Implementation Support Plan will be revised after the first year of implementation.

**Table 3.1. Implementation Support Plan**

Time	Focus	Skills Needed	Resource Estimate
First 12 months	<ul style="list-style-type: none"> <li>• Procurement training and implementation support</li> <li>• FM training and implementation support</li> <li>• Monitoring and evaluation setup and strengthening</li> <li>• Safeguards implementation support and capacity building</li> <li>• Technical supervision of Component 3 activities, including (a) reviewing terms of reference for technical studies; (b) providing capacity building to the selected municipalities in urban planning and management; and (c) supervising the development of the studies</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring and evaluation</li> <li>• Urban planning, including urban design, regulations and operations, urban renovation and housing</li> <li>• Urban environmental engineering</li> <li>• Financial project structuring, public-private partnerships and real estate financing</li> <li>• Project management</li> <li>• Safeguards</li> <li>• Procurement</li> <li>• FM</li> </ul>	8 staff members, 1–2 trips per year
12–48 months	<ul style="list-style-type: none"> <li>• Safeguards implementation support</li> <li>• Technical supervision of Component 3 activities, including (a) reviewing terms of reference for technical studies; (b) providing capacity building to the selected municipalities in urban planning and management; and (c) supervising the development of the studies.</li> </ul>	<ul style="list-style-type: none"> <li>• Urban planning, including urban design, regulations and operations, urban renovation and housing</li> <li>• Urban environmental engineering</li> <li>• Financial project structuring, public-private partnerships and real estate financing</li> <li>• Project management</li> <li>• Safeguards</li> <li>• Procurement</li> <li>• FM</li> </ul>	6 staff members, 1–2 trips per year

**Table 3.2. Skills Mix Required**

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader	1 staff member: 10 weeks	Two trips per year	—
Urban Development Planning Specialist	1 staff member: 10 weeks	Two trips per year	—
Urban Project Financing Expert	1 staff member: 4 weeks	Two trips per year	—
Financial Structuring Expert	1 staff member: 4 weeks	Two trips per year	—
Monitoring and Evaluation Expert	1 staff member: 4 weeks	One/two trips per year	—
Social Safeguards Specialist	1 staff member: 4 weeks	One/two trips per year	—
Environmental Safeguards Specialist	1 staff member: 4 weeks	One/two trips per year	—
Financial Management Specialist	1 staff member: 4 weeks	One trip per year	—
Procurement Specialist	1 staff member: 4 weeks	One trip per year	—





**ANNEX 4: Summary of the Economic Analysis for the Project**

1. A cost-benefit analysis was used to assess the project’s impacts on households by comparing a ‘with’ and ‘without’ direct support scenario. The benefits were measured using the economic costs associated with poor-quality housing, including (a) expenditures on health care due to lack of water and sanitation and (b) lack of housing unit appreciation due to the absence of titles. Title benefits will accrue mostly to beneficiaries under Component 1. Title is not required for beneficiaries under Component 2 (though they must show proof of land possession); however, these households will gain an additional level of tenure security through the certification of the unit construction and its inclusion in the RUV. Wealth impact was also measured after subtracting increase in expenditures generated from the new housing unit, such as higher mortgage payments compared to previous rent. Benefits associated with better location were also measured for households (saving on transportation costs) and for Government (savings on infrastructure costs).

2. The analysis assumed a total cost of US\$97.75 million—US\$48.75 million to invest for 13,045 beneficiaries under Component 1 housing purchases (mean direct support US\$3,737); US\$49 million to invest for 16,644 beneficiaries under Component 2 (mean direct support US\$2,944); for a total of 29,689 beneficiaries.

3. **Impact on economic development.** Results show that the planned intervention is a worthwhile investment as it will have a positive impact on the quality of life of the beneficiaries. When the project is evaluated assuming that the beneficiaries will not change location, results show that both components are economically viable with returns of about 30 percent. The overall project yields a 30 percent return and net benefits of about US\$122 million. Total benefits are twice as much as the costs, which allows ample room for uncertainties along the lifetime of the interventions.

*Table 4.1 Results of the Economic Evaluation (US\$ per household)*

	Present Value of Flows using 5% Discount Rate (US\$, thousands)			Internal Rate of Return (%)
	Costs	Benefits	Net Benefits	
New or used	48,750	102,258	53,508	28
Self-production	49,000	117,898	68,898	32
Total	97,750	220,157	122,407	30

4. Sensitivity analysis shows that even if wealth impact reduces by 70 percent or benefits are delayed for as much as six years, the project would still show positive results. When change to better location is included, benefits increase substantially as households will save on transportation costs and travel time, and the Government will save on infrastructure costs, mainly on roads, public lighting, and water and sewerage network construction. Results will vary according to the number of beneficiaries who change location. If 30 percent move to a better location, households will attain additional benefits of US\$18 million and the Government, US\$14 million.

5. These benefits will be obtained on top of the US\$122 million attained without change of location. Under this scenario, the project will generate net benefit of US\$154 million, well above the investment costs.



Table 4.2. Results of the Economic Evaluation when Including Benefits when 30 percent of Beneficiaries Move to Better Location (US\$ per household)

	Present Value of Flows using 5% Discount Rate (US\$, thousands)			
	Net benefits at same location	Benefits When Changing Location		Total Net Benefits
		Households	Government	
Total	122,407	17,957	14,164	154,527

6. The results are reassuring given that some of the benefits were not measured as it is the case of (a) costs savings associated with diseases caused by poor construction materials and deteriorated houses and (b) benefits of reduction of GHG, which is expected to reduce from 6 percent to 8 percent from living in central city areas because of decreased energy consumption and vehicle-miles traveled.

7. Sustainability of the project was also tested using the affordability criteria. Results from this evaluation show that mortgage payments generated from new loans will comply with the affordability indicator and so concerns related to the loans linked to direct support, particularly for low-income borrowers, can be mitigated. It is expected that new financial burden for beneficiaries will not bring additional stress to the current Program being implemented by the Government.

8. If direct support were not granted, the affordability criteria would not be met for households with income of 3 UMA. For families with income of up to 5 UMA, mortgage payments would be in the borderline of the affordability criteria, increasing the risk of defaulting payment. This shows the importance of the direct support programs not only for the beneficiaries but also for the financial institutions.

9. **Rationale for Government intervention.** The main justification for public funding to provide housing assistance is that private markets fail to provide adequate housing for people with lower income, and thus Government direct support are needed to fill the gap. Without the direct support and given the lack of adequate and affordable housing, many households would be unable to afford acceptable accommodation. In Mexico, direct support programs have been in implementation for several years and have proved to be a good mechanism to improve living conditions, promote homeownership, and promote social integration, among others. Finally, improving housing provides additional social and economic benefits, such as improved health, well-being, and education, some of which will imply welfare savings for the Government. Public investment on housing also brings benefits to the Government through incremental welfare savings, such as reduction in public health costs, given the link that exists between housing improvement and better health.

10. **World Bank value added.** The World Bank has extensive experience in supporting housing and urban development in Mexico and the region. The project draws on lessons and guidance from the World Bank work on housing direct support projects in other countries, including India, Indonesia, and Argentina. It also provides specialized support as it draws from the World Bank’s combined expertise in both housing and finance sectors.