Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)
## BASIC INFORMATION

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>P157932</td>
<td>Improving Access to Affordable Housing Project</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Lending Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tbody>
<tr>
<td>Investment Project Financing</td>
<td>United Mexican States</td>
<td>CONAVI, Nacional Financiera S.N.C. I.B.D. (NAFIN)</td>
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</table>

<table>
<thead>
<tr>
<th>Financing (in USD Million)</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Total Project Cost</strong></td>
<td>100.00</td>
</tr>
</tbody>
</table>

Environmental Assessment Category

**B - Partial Assessment**

**Decision**

The review did authorize the preparation to continue

**Other Decision (as needed)**

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### B. Introduction and Context

**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 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. Macroeconomic stability, initial results from structural reforms, and enhanced external competitiveness should lift private investment and exports and improve economic growth prospects in the medium term. Economic and financial stability and further progress in the implementation of an ambitious structural reform agenda, as well as the increase in external competitiveness following the depreciation of the currency should lift private investment and exports and secure economic growth of about 2.5 percent in 2017 and 2.8 percent by 2018.

3. Poverty reduction has been uneven.¹ Monetary poverty in Mexico has not improved for the last 20 years. Nonmonetary poverty, on the other hand, has shown an improvement because of a reduction in social deprivations in recent years. 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).² Increasing access to housing (or improving housing conditions) in urban areas contributes to reducing multidimensional 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 nonmonetary poverty dimensions are related to housing. Housing is also 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).³

Sectoral and Institutional Context

5. The housing deficit in Mexico remains high despite substantial increases in housing supply in recent years.⁴ 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.⁵ 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).⁶ 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

¹ 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.
² 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.
⁴ 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.
⁵ 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.
⁶ 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).
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.\(^7\)

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 Mex$225,230 (about US$17,000)\(^8\) and is affordable for households earning around 3 MW per month or more.\(^9\) 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 Mex$301,946 (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 deconcentrated 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 subsidy programs 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. That same year, the Program was launched, and is today the main housing

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\(^7\) 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.

\(^8\) 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.

\(^9\) 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 Unico 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+. 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.
credit-linked subsidy program of the Government of Mexico.\textsuperscript{10} Its main objective is to improve access to housing by providing a demand-side subsidy linked to a mortgage loan to households with incomes below 5 Units for Measurement and Actualization (UMA).\textsuperscript{11} The Program has improved progressively since 2007, as measures to improve efficiency, equity, and progressivity of targeting were introduced. The World Bank has provided extensive support throughout the life of the Program through a series of advisory, lending, and analytical projects which have enhanced the current design. 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 subsidy with liquidity lines by the SHF

(c) Adjusting income parameters to balance increased affordability with debt sustainability

(d) Introducing energy efficiency requirements for units obtained with subsidies to ensure a more environmentally sustainable housing sector

9. In 2013, as the Pena Nieto administration 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 recently completed an analysis of the efficiency of the Program and found it well targeted, fiscally sustainable, and effectively leveraging private sector participation.\textsuperscript{12} 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.\textsuperscript{13} 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\textsuperscript{14}, among others. In 2013 CONAVI incorporated location into the criteria for allocation and segmentation of the subsidies, as a federal attempt to revert the dispersed urban expansion trend. The revised rules differentiated the subsidy amounts by location according to different

\begin{footnotesize}
\begin{enumerate}
\item The Program’s operational rules are published annually on the Official Gazette and at http://www.conavi.gob.mx/subsidios-conavi.
\item In February 2017, CONAVI adjusted the income units used under the Program from “minimum wages” (MW, equivalent to Mex$80.04 per day) to “Unidad de Medida de Actualización” (UMA - equivalent to Mex$75.49 per day in 2017). The UMA is the economic reference in Mexican pesos to determine the payment amount for obligations for all federal entities, and its value is issued by the National Institute for Statistics and Geography (INEGI).
\item The Program has successfully stimulated housing supply, with a total of 1.5 million subsidies disbursed; supporting around 20 percent of the formal units built. The subsidy is well targeted toward low and very low-income households: 77.8 percent of subsidies for home purchases and 75.7 percent of subsidies for home improvements went to households earning less than 3 MW.
\item 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).
\item 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.
\end{enumerate}
\end{footnotesize}
zones (contornos), with higher subsidies for better located housing. They also made units located more than 900 m from an existing infrastructure network ineligible for support from the Program.\footnote{CONAVI has developed a very detailed definition of the location criteria to determine the subsidy 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. In turn, this 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.\footnote{See: (i) Centro Mario Molina. 2015. Urban Planning Scenarios: Mexico City Metropolitan Area; (ii) Centro Mario Molina, Ciudades: Mérida Ciudades de Crecimiento, Mexico: 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.} The horizontal housing model in peri-urban areas was found to generate 44 percent more CO2 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 CO2 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. However, 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 changes, 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 subsidies were allocated to units in core central areas and 17.9 percent to areas already fully serviced by infrastructure networks. This suggests that the subsidy 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 important affordability discrepancies with respect to the formal beneficiaries of the same income group. The vast majority of subsidies 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 subsidies. Formal workers are also much more likely to receive subsidies for the purchase of housing, while unaffiliated mostly receive subsidies for self-production and improvement loans.\footnote{70 percent of the subsidies to formal workers are used for the purchase of new houses, compared to only 1 percent of the subsidies to informal workers, with 53 percent of the subsidies to informal workers going toward self-production and 39 percent towards improvement loans instead.} 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, as reflected in the 2017 Rules of Operation, to strongly prioritize low-income citizens, and is identifying options to expand the support to the informal sector, as well as other traditionally excluded sectors of the population, such as women, disabled, and youth. Since informal and vulnerable groups do not easily obtain (or repay) long-term loans; self-production and rental solutions can better match their needs and preferences. The development of a well-functioning private rental sector is important to provide at least temporary solutions to mobile workers, young adults, and all other persons who either prefer to rent or are compelled to, because they have no access to credit or because purchase is simply unaffordable to them. In this sense, a well-functioning rental market can
play a key role in promoting economic growth by allowing the mobility of people.\textsuperscript{18} CONAVI has launched a pilot rental program that focuses on specific groups of concentrated demand and is exploring alternatives for scaling up.

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 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.\textsuperscript{19} Moving forward, CONAVI needs to work in partnership with local governments to explore innovative solutions in which the subsidy combined with progressive urban regulation can enable the development of more affordable units within the city’s existing urban areas.

14. **Local 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 setup 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.\textsuperscript{20} 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.\textsuperscript{21}

C. Proposed Development Objective(s)

\textsuperscript{18} A recent study noted that, in theoretical models of mobility, economic research suggests the U.S. GDP would have been more than 10 percent higher in 2009 if workers and capital had freely moved so that the relative wage distribution remained at its 1964 level. (Hsieh, C., and E. Moretti. 2015. “Why Do Cities Matter? Local Growth and Aggregate Growth.”; The White House. 2016. Housing Development Toolkit).

\textsuperscript{19} 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.

\textsuperscript{20} McKinsey Global Institute. 2014. A Blueprint for Addressing the Global Affordable Housing Challenge.

\textsuperscript{21} 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.
Development Objective(s) (From PAD)
The Project’s development objective is to increase access to housing for low-income households

Key Results

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

<table>
<thead>
<tr>
<th>Project Development Indicator</th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number of subsidies allocated for housing units in eligible locations</td>
<td>1 and 2</td>
</tr>
<tr>
<td>2. Percentage of total subsidies allocated for rental and self-production</td>
<td>1 and 2</td>
</tr>
<tr>
<td>3. Number of cities that take concrete steps or actions to increase density or relieve regulatory bottlenecks for affordable housing provision</td>
<td>3</td>
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</table>

16. The project will also include intermediate monitoring indicators, including the share of subsidies allocated for beneficiaries below 3 UMA; the number of female beneficiaries; and the percentage of beneficiaries from the informal sector. A full summary and description of these indicators is included in the Results Framework section.

D. Project Description

17. The project will support CONAVI’s current Program to expand access for low-income households for the acquisition, rental, and self-production of housing solutions. The project funds complement a larger budget allocation to the Program from the Federal Government.

18. The Program’s operational rules allow for the provision of subsidies 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 Program also allows the possibility of support for rental housing. The proposed operation will finance subsidies for acquisition, self-production, and rental only, as these were considered a priority with regard to market segmentation and innovation (in the case of rental). In addition, the project will finance support to local governments to unlock the existing regulatory and urban planning constraints to catalyze inner-city affordable housing projects. A detailed project description is presented in annex 1. The project includes three components.

19. **Component 1: Increased Access to Housing for Low-income Households (US$48.75 million, 100 percent IBRD financing).** This component would provide subsidies to eligible beneficiaries for the acquisition or rental of a housing solution in selected locations.

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22 Between 2007 and 2014, on average, the proposed federal budget allocation for the Program was US$425 million per year.

23 Although not an official modality, rental is allowed and implemented as an “Institutional and Extraordinary Project” (Proyectos Institucionales y Extraordinarios). Such initiatives are approved by CONAVI’s Board which comprises of the representatives of the following secretariats: Finance and Public Credit, Social Development, Energy, Transport and Communication, Environment and Natural Resources, and SEDATU. The Institutional and Extraordinary Project can represent up to 20 percent of the total Program’s budget.
20. The objective of Component 1 is to improve access to housing acquisition and rental for low-income households (earning less than 4 UMA) in well-located urban areas through CONAVI’s Access to Finance Program. This component will finance up-front subsidies awarded under the Program for housing acquisition and rental for low-income households.

21. **Component 2: Support for Self-production of Housing Units (US$49 million, 100 percent IBRD financing).** This component would provide subsidies to eligible beneficiaries for the design and construction of housing units.

22. The objective of this component is to improve access to self-production of basic housing units for low-income households (below 4 UMA), through the support of CONAVI’s Access to Finance Program. 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. Under this component, households also receive technical assistance on construction techniques, contract management, and basic financial literacy. The subsidy is paired with one or multiple micro-credits typically awarded by microfinance institutions, social housing developers, cooperatives, or Multiple Purpose Financing Institutions (*Sociedades Financieras de Objeto Multiple*). In this case, the saving by the beneficiary can be provided in kind or through their own labor. Table 3 details the maximum subsidy amount and maximum eligible house value.

23. **Component 3: Development and Strengthening of Urban Planning Instruments for Sustainable Housing Sector Expansion (US$2 million, 100 percent IBRD financing).** This component would support 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.

24. This component would be implemented in parallel to 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.

25. **Climate change mitigation co-benefits.** The project will carry climate change mitigation co-benefits through supporting the integration of transport and urban development planning. Under Component 1, 100 percent of subsidies 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. While subsidies for rental (approximately 1.6 percent of project finance for Component 1) are also expected to be used for well-located housing, they do not carry the same *contorno* requirement for eligibility and are omitted from inclusion in climate change mitigation co-benefits. Also, about 10 percent of housing units purchased with the subsidies will meet Mexico’s Nationally Appropriate Mitigation Actions which include water and energy-efficient appliances, lighting, and

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25 The subsidy can be fully disbursed upon verification of a 30 percent progress of works.
heating and cooling equipment, which will reduce overall GHG emissions. 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 42.75 percent of project resources, specifically the total amounts allocated to subsidies for new housing purchase under Component 1 (excluding rentals) and financing for studies under Component 3.

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26 CONAVI is piloting similar programs for linking subsidies for the purchase of energy-efficient existing houses and through encouraging Works Executing Entities (Organismo Executor de Obra, OEOs) to include these type of designs elements for the self-production modality.
Component Name:
Increased access to housing for low-income households
Comments (optional)

Component Name:
Support for self-production of housing units
Comments (optional)

Component Name:
Development and strengthening of urban planning instruments for sustainable housing sector expansion
Comments (optional)

E. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The Project supports a demand driven program that is nation-wide in scope and can be implemented in urban, peri-urban and rural areas across the country and across a variety of environmental conditions. The program has a well-developed set of implementation arrangements consistent with existing national, state and municipal regulation on sustainable housing development. Exact location of the beneficiaries is unknown, however Component 1 will support access to housing in consolidated urban areas with access to services; as per the locational criteria established in the Program's Operational Rules. Component 2 will be implemented in existing individual plots owned or occupied by the beneficiaries typically in peri-urban or rural areas.

F. Environmental and Social Safeguards Specialists on the Team

Michael J. Darr, Arelia Jacive Lopez Castaneda

IMPLEMENTATION

CONAVI will be responsible for the implementation of safeguard-related activities identified as part of the ESMF and IPP. The Bank will monitor the implementation of the safeguards-related aspects as part
of the supervision of the Project and will inform the project documentation accordingly (Aide memoires, ISRs). The Bank’s safeguard specialists will provide technical guidance to CONAVI for the development of capacity building material on occupational safety, and environmental and social best practices.

### SAFEGUARD POLICIES THAT MIGHT APPLY

<table>
<thead>
<tr>
<th>Safeguard Policies</th>
<th>Triggered?</th>
<th>Explanation (Optional)</th>
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</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>Yes</td>
<td>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. Component 1 has not been identified as having adverse environmental impacts or risks. The project will finance up-front subsidies for the acquisition or rental 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 and renters. Component 2 will finance subsidies for the self-production of housing solutions. Under this</td>
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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 subsidies 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 overall quality and adequacy 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.

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 principles of Bank safeguards.

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 InfoShop on April 21, 2017.

<table>
<thead>
<tr>
<th>Natural Habitats OP/BP 4.04</th>
<th>No</th>
<th>This policy is not triggered as no Project activities will be implemented in natural habitats.</th>
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<tbody>
<tr>
<td>Forests OP/BP 4.36</td>
<td>No</td>
<td>This policy is not triggered as no Project activities will be implemented in forests.</td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td>No</td>
<td>This policy is not triggered since the Project does not involve the purchase or use of pesticides.</td>
</tr>
<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td>No</td>
<td>This policy is not triggered as the Project does not include activities that could potentially affect physical cultural resources.</td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td>Yes</td>
<td>This Policy is triggered given that the Program supported by the project is nation-wide in scope, and Indigenous People (IP) are present in the Project's area of influence.</td>
</tr>
</tbody>
</table>

A social assessment (SA) was prepared to assess possible positive and/or negative impacts of the Project. The social assessment revealed that the project is not expected to have negative impacts on IP and that throughout its previous years of implementation, the Program has been particularly effective in: (i) reducing the housing deficit among low-income and indigenous beneficiaries; (ii) developing financial skills among beneficiaries; (iii) promoting housing market formalization in rural and semi-rural areas; and (iv) incorporating cultural and social norms in its Operational Manual when dealing
An Indigenous People’s Plan (IPP) was prepared, which focuses on mainstreaming and optimizing the Program’s benefits for indigenous peoples. Three main action lines were identified in the IPP for CONAVI’s implementation; these are:

(a) Strengthening the capacity of OEOs to systematically develop self-produced houses that adjust culturally and environmentally to the needs of indigenous beneficiaries;
(b) Improving the dissemination and promotion of the Program in indigenous areas, as well as Indigenous People’s access to additional sources of financial assistance sources provided by the Federal Government; and
(c) Strengthening the mechanisms for citizen engagement. Provide a system to resolve complaints and/or emerging issues through a grievance redress mechanism at local levels.

A consultation process, comprised of three public consultation sessions with IP were carried out in November 2016. Two consultations were conducted in the States of Yucatan and Campeche and the third was held in Mexico city within the Consultative Council of the National Commission for the Development of Indigenous Peoples (Comisión Nacional para el Desarrollo de los Pueblos Indígenas, CDI). The specific communities within the States of Yucatan and Campeche were selected on the basis of: (i) relative density of Indigenous Population (> 40% 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 of the consultation sessions included: (i) previous beneficiaries who received housing subsidies 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 CDI; and (iv) representatives of the OEO.

Feedback obtained during the consultations focused on: (i) improving the awareness of CONAVI’s...
beneficiaries on their rights and obligations; (ii) strengthening the dissemination of the Program in an accessible and culturally adequate manner to the distant population, and in as many languages as possible; (iii) strengthening of the capacity of the OEOs and EEs to offer a better service that takes into account cultural diversity and the needs of vulnerable groups; (iv) strengthening CONAVI’s supervision of the activities performed in the communities, as well as the transparency and accountability of the processes.

The IPP was updated with the inputs from the consultation process and the instrument has been disclosed on April 11th on CONAVI’s website as well as on the World Bank’s InfoShop.

Involuntary Resettlement OP/BP 4.12  No

This policy is not triggered as: (i) for Component 1 there are extensive controls in place to prevent the involuntary taking of land, including that the land acquired by the developers must also be registered under RENARET as suitable for residential use; and (ii) for Component 2 beneficiaries must use the subsidy to obtain or improve housing on privately owned land (this is an eligibility criteria). The beneficiary must provide proof of land possession or title. Component 3 will finance the preparation of technical studies, market assessments, diagnostics, infrastructure requirement analysis and communication strategies, and as such will not result in direct economic or social impacts from the involuntary taking of land. To mitigate the risk of possible downstream impacts -in particular on resettlement which could stem if recommendations of the studies and activities financed under component 3 are implemented, - 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 principles of Bank safeguards.

Safety of Dams OP/BP 4.37  No

The Project will neither support the construction or
rehabilitation of dams nor will it support other investments which rely on services of existing dams.

| Projects on International Waterways OP/BP 7.50 | No | The Project will not finance activities involving the use or potential pollution of international waterways. |
| Projects in Disputed Areas OP/BP 7.60 | No | The Project will not finance activities in disputed areas as defined in the policy. |

**KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT**

**A. Summary of Key Safeguard Issues**

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

   No large scale, significant and/or irreversible impacts associated with the Project have been identified.

   **Social**
   The SA concluded that the implementation of the program would not generate negative impacts for Indigenous communities, but rather is likely to produce positive social impacts for them by facilitating access to housing. CONAVI has been effective in: (i) reducing the housing deficit among low-income and indigenous beneficiaries; (ii) developing financial skills among beneficiaries; (iii) promoting housing market formalization in rural and semi-rural areas; and (iv) incorporating cultural and social norms in its Operational Manual when dealing with Indigenous households. A PPI was prepared and consulted, including activities to strengthen the positive impacts from the project. These relate mainly to (a) access to the Program’s social and economic benefits; (b) making sure that the indigenous peoples receive the Project’s benefits in a culturally attuned manner. 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 indigenous or non-indigenous populations.

   **Environmental**
   The Project supports an ongoing program which has controls in place for most environmental and social risks related to purchase and rental 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. An ESMF has been prepared, consulted with the borrower, and disclosed as per OP/BP 4.01 (Environmental Assessment).

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
Social
The SA highlighted the need to strengthen citizen participation mechanisms and mainstream communication and outreach efforts to indigenous communities. The decentralized way in which the Program is implemented allows for national-wide coverage with relative flexibility, yet makes direct contact with CONAVI complex for beneficiaries (as these typically liase only with EEs or OEOs).

Environmental
The Project is expected to yield some 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.

Indirect or long-term impacts could occur from the implementation of recommendations contained in studies under Component 3. To mitigate this risk, specific requirements will be included in all terms of references for the technical studies financed under this component, to provide that the scope of work includes (a) an analysis of the potential downstream effects; (b) the identification of potential risks, if any; and (c) the inclusion of proposed mitigation measures in the studies produced, based on the Mexican legislation, and in accordance with the principles of World Bank safeguards.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
N.A.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
Mexico has a robust legal and institutional framework for housing development. In addition, CONAVI has a solid track record of around 10 years operating the Program for affordable housing, with good operational and impact results. The Program relies on third-party verification of the units that are selected by beneficiaries. Verification is validated and geo-referenced in a national-level database which tracks the unit characteristics. CONAVI has also strengthened its capacity over the years to promote social integration, support disadvantaged groups, and to promote gender equality, and has sufficient institutional capacity to implement the indigenous safeguard and environmental assessment policies. The following activities will be implemented by CONAVI to mitigate the potential Project risks:

Social
The project will strengthen CONAVI effectiveness in reaching out to indigenous peoples. The IPP strategy will include the following components: (i) Strengthening the capacity of the OEOs to reach out more systematically to Indigenous Peoples in a culturally appropriate manner; (ii) Ensure broad dissemination of information about the Program among Indigenous communities; (iii) Put in place a Grievance Redress Mechanism to address any possible issues and/or complaints and bring them to effective resolutions.

Environmental
Under Component 1, the introduction of a 1994 cut-off date for the used houses to be partially financed through the Project to ensure compliance with the environmental hazardous material regulations. In addition, as part of implementation, the Project will strengthen the capacity of the RUV verifiers. Under Component 2 as part of Project implementation: (i) CONAVI will provide capacity building to OEOs to identify risk-prone areas, based on available information and visual consideration; (ii) COANVI will develop environmental and occupational safety guidelines to be distributed to the OEOs and beneficiaries, which will include good practices for site selection, waste and chemicals management during construction, as well as the proper use of personal protection equipment.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

A consultation process for the IPP with Indigenous Peoples was conducted in November, 2016. The consultations covered two key regions of Mexico, chosen on the basis of: (i) relative density of Indigenous Population (> 40% 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 subsidies 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 CDI; and (iv) representatives of the OEO. The consultation process met the requirements of the WB Indigenous Peoples’ policy. An additional consultation has been carried out with members of the Consultative Council of CDI. The Consultative council is a collegiate and plural body intended to provide a framework for the initiation of a constructive and inclusive dialogue with indigenous peoples and society for the development of policy and the implementation of strategic plans of the GoM.

CONAVI had undertaken previous disclosures and consultations during the development of the housing program which has already been in existence since 2009, including development of the 2014-2018 National Housing Program and the 2013-2018 National Development Plan. The draft ESMF was disclosed on the CONAVI website and a workshop for consultation of the ESMF was held on April 18th, 2017 which included the participation of key stakeholders. The final ESMF was modified to include the information and viewpoints obtained during the workshop.

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)
Environmental Assessment/Audit/Management Plan/Other

<table>
<thead>
<tr>
<th>Date of receipt by the Bank</th>
<th>Date of submission to InfoShop</th>
<th>For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-Apr-2017</td>
<td>21-Apr-2017</td>
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</table>

"In country" Disclosure
Mexico
11-Apr-2017

Comments
http://www.gob.mx/conavi/documentos/proyecto-de-fortalecimiento-del-acceso-a-la-vivienda-social?idiom=es

Indigenous Peoples Development Plan/Framework

<table>
<thead>
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"In country" Disclosure
Mexico
11-Apr-2017

Comments
http://www.gob.mx/conavi/documentos/proyecto-de-fortalecimiento-del-acceso-a-la-vivienda-social?idiom=es

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
Yes

OP/BP 4.10 - Indigenous Peoples
Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?
Yes
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
Yes
If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Practice Manager?
NA

The World Bank Policy on Disclosure of Information
Have relevant safeguard policies documents been sent to the World Bank’s Infoshop?
Yes
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes

All Safeguard Policies
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes
Have costs related to safeguard policy measures been included in the project cost?
Yes
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

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APPROVAL

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Country Director: