

**PROJECT INFORMATION DOCUMENT
(CONCEPT STAGE)**

Project Name	Affordable Housing and Urban Poverty Reduction DPL-III
Region	Latin America and the Caribbean
Sector	Other social services; Housing finance and real state markets; Central Government Administration; Subnational Government Administration; Law and Justice
Project ID	P101342
Borrower(s)	United Mexican States
Implementing Agency	Sociedad Hipotecaria Federal (SHF)
Date PID Prepared	June 19, 2007
Estimated Date of Appraisal Authorization	September 18, 2007
Estimated Date of Board Approval	November 8, 2007

1. Key development issues and rationale for Bank involvement

The Mexico housing and urban poverty reduction program continues to be robust with strong ownership from the Government of Mexico. As [Table 1](#) below shows the number of housing subsidies continue to increase while being better targeted to the poor (<3 MW segment) and (for the first time in Mexico) incentivizing used housing. The housing microfinance pilot has made steady progress with the number of microfinance loans increasing. The number of plots allocated to beneficiaries of the program Habitat for low-income housing has also increased. Based on the strong progress, it is the team's assessment that the HUDPL program is substantially on track and this note proposes approval of HUDPL-III in November 2007.

Table 1: Selected monitoring indicators

Indicator	2004	2005	2006
Total number of housing solutions	738,600	768,532	952,763
Total number of subsidies	302,173	445,952	616,073
Total amount of subsidies to households earning < 3MW / Total amount of subsidies	0.07	0.33	0.36
Total number of HMF loans	n.a.	45	1,336
Financial sustainability (SHF)*		1.01	1.04
Number of slums that have prepared participatory plans under Habitat	n.a.	0	75
Number of serviced lots that have been allocated to < 5MW beneficiaries under Habitat	0	2,900	3,600
Number of cities that have prepared Risk Atlases	2	11	56

* Defined as: Total internally generated income / (total expenses + imputed cost of capital)

Source: CONAVI, SHF and SEDESOL

2. Proposed Objective(s)

The Calderon administration has maintained the previous government's commitment to address Mexico's critical housing and urban development needs. The National Development Plan 2007-2012¹ aims to increase access to housing for the poorest segments of the population in an orderly, rational and sustainable context. The program has emerged from the consultations held by the Federal Government in various regional forums² held between January and March 2007. It has seven goals:

- Strengthen tenure security through the standardization of property registries, municipal cadastres and rural registries as well as the mandatory registry of properties.
- Increase the coverage and variety of housing finance options available.
- Increase the supply of adequate land for housing construction and economic development.
- Re-use of the existing urban infrastructure,
- Consolidation of the National Housing System.
- Generate a dynamic used housing market and assist the development of an efficient rental market
- Promote housing improvement and create conditions to foster progressive housing and social housing production through alternative financial products and support for the lower-income population.

3. Preliminary Description

The proposed Third Affordable Housing and Urban Poverty Reduction Development Policy Loan (HUDPL-III) will support a number of the new administration's priorities and initiatives in the housing and construction sector. It consolidates and deepens the reforms undertaken under the first and second loans (HUSAL and HUDPL-II) which were approved in April 2004 and November 2005 respectively.

Table 1 below gives the team's assessment of the status of individual triggers for HUDPL-III.

Table 1: Status of Proposed Key Prior Actions for HUDPL III

Policy area	Key prior actions	Status as of August 9, 2007
Macroeconomic framework	Maintenance of sound macroeconomic framework consistent with policy objectives and programs described in the Letter of Development Policy.	Met
Housing subsidies	Government has designed – as reflected in the approved 2008 budget – a unified subsidy system that: (a) improves equity across programs; (b) prevents joining subsidies from multiple federal programs (“double dipping”) which	Substantially complete with improvements made in PROSAVI. Key study that will examine constraints on local counterpart funding about to be contracted and preliminary results should be available by mid-July. Details

¹ The National Development Plan 2007-2012 may be seen at <http://pnd.presidencia.gob.mx/index.html>. The section on housing and construction may be seen at http://pnd.calderon.presidencia.gob.mx/pdf/Eje2_Economia_Competitiva_y_Generadora_de_Empleos/2_13_Construccion_y_Vivienda.pdf

² CONAFOVI, 2001, *Programa Sectorial de Vivienda 2001-2006*, available at http://www.conafovi.gob.mx/secciones/banner/programa_percent20sectorial/index.htm.

Policy area	Key prior actions	Status as of August 9, 2007
Housing finance	results in a total subsidy per-unit that exceeds agreed-upon ceilings; (c) adjusts state and municipal contribution requirements to federal subsidy programs based on the poverty level in the jurisdiction; d) establishes consistent rules for beneficiary selection, for linking receipt of the subsidy to household savings, and for the subsidy amount by income group and region; and e) increases portability of subsidies. SHF mainstreams financing of home improvement, addition and purchase of existing housing, in accordance with standards agreed between the GOM and the World Bank.	are provided below. Met
Urban property registries and rights	The property registry program is expanded to cover at least 18 states which cover at least 80 percent of the urban population (potential users).	Will be met by August 2007
Low- and moderate-income land development	Government has completed a quantitative cost/benefit analysis of land development and has developed an action plan that facilitates low- and moderate-income residential land development incorporating a pilot program that facilitates low- and moderate-income land development.	The study and pilots are about to be started and preliminary results should be available by mid-July.

4. Safeguard policies that might apply

The individual policy areas of the Program for which there were triggers within HUDPL-III are discussed in detail below.

Policy Area 1: Housing Subsidies

The proposed HUDPL III will support further reform in the housing subsidy system through the creation of a new subsidy program linked to credit and the gradual modification of the Tu Casa program to align with the new scheme. In January 2007 CONAVI launched a new subsidy program called **Programa de Esquemas de Financiamiento y Subsidio Federal para Vivienda** with a budget allocation of MXP 3.8 billion³ that replaces the old PROSAVI program. The program targets populations earning between 2

³ 1 US\$=10.92 MXP

and 5 minimum wages⁴ and has been designed to foster private sector financing for households that are traditionally not being served by the financial sector by providing up/front grants and guarantees to increase the affordability of the housing unit (with an approximate house value of US\$ 17,000). CONAVI estimates allocation of around 120,000 subsidies in 2007 via several financial intermediaries. To avoid duplication, the operational rules of the **Tu Casa** program have been adjusted to finance housing units of a lower value (up to US\$ 13,000) than the units supported by the **Programa de Esquemas de Financiamiento y Subsidio Federal para Vivienda**

In order to increase the coherence and equity of the housing finance system and avoid duplication in functions and target population, the GoM has revised the operational rules of the second largest federal subsidy program: Tu Casa. With a budget allocation of MXP 2.5 billion the Tu Casa program is now the second largest federal subsidy program financing housing acquisition and improvement targeting populations earning between 1 and 3 minimum wages. Until December 2006, it supported acquisition of housing units with a maximum value of US\$ 17,000, which could link to a loan or subsidy from local governments plus beneficiary savings. In order to avoid duplication with the new **Programa de Esquemas de Financiamiento y Subsidio Federal para Vivienda** program, the 2007 Tu Casa rules have been revised. The maximum house value has been reduced to US\$ 13,000, and the program can no longer be linked to a loan. The subsidy is supported by beneficiary savings and local government contribution in the form of a subsidy. By authorizing a housing solution of a lower value, the program - while keeping the amount of the grant unchanged (US\$ 3,450) - is effectively increasing the percentage of the house value subsidized for those earning below 3 MW, while making households eligible for a loan beneficiaries of the **Programa de Esquemas de Financiamiento y Subsidio Federal para Vivienda** program instead. Until now, the housing acquisition component of the program has had mixed results; with local governments struggling to provide the local contribution in form of a serviced lot, which translated into developments that are not suitably located in terms of access to services and infrastructure. The GoM is aware of these shortcomings and envisages the Tu Casa program supporting in the medium term housing improvements for the poorest. A good example of this is the Tu Casa Mejoramos program that is the window under Tu Casa that finances home improvements for the poorest and the very successful program Piso Firme for which impact evaluations by the Bank show positive results⁵

Direct lending by FONHAPO has been phased out. In the past FONHAPO acted as the primary Government institution providing funds for low-income housing, with a very poor track record. Recent estimates suggest a delinquency level of US\$ 6 billion. Moreover, FONHAPO's below-market rate loans were inconsistent with efforts undertaken by SHF to establish a market-based housing finance system. As part of the GoM efforts to increase coherence of the housing finance system, FONHAPO's role as a lending institution has been revised. A new mandate for FONHAPO will be launched in the coming months and specify that FONHAPO will act solely as the operating arm of the upfront subsidy program Tu Casa.

Policy Area 2: Housing Finance

⁴ 1 minimum wage in Mexico (From January 1, 2007) is on average about US\$ 4.42/day. See http://www.sat.gob.mx/sitio_internet/asistencia_contribuyente/informacion_frecuente/salarios_minimos/

⁵ Details of the evaluation can be seen in the World Bank working paper entitled "Housing, Health and Happiness" by Titunik, Rocio;Martinez, Sebastian;Gertler, Paul J.;Galiano, Sebastian;Cattaneo, Matias D.; http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2007/04/19/000016406_20070419123430/Rendered/PDF/wps4214.pdf

Under HUDPL III SHF will continue to reach out to credit unions and small SOFOLES to expand housing micro-finance. As part of its efforts to mainstream microfinance for home purchases and improvements, SHF has taken steps to include one or two credit unions in its initial pilot program which is considered to be essential to significantly expand market coverage. By October 2006 SHF had financed 1,350 loans with a total value of US\$ 800,000 through three main financial intermediaries (average loan of US\$ 620) and intends to expand this effort signing new agreements with new intermediaries with plans to have nine more by December 2007.

Policy Area 3: Urban Property Registries and Rights

HUDPL III will support property registry modernization agreements with at least 18 states covering around 80% of the urban population. Despite a budget cut in 2006, CONAVI continued its efforts to expand the property registries modernization program and by January 2007 ten States had signed modernization agreements. The new administration has incorporated tenure security as a key item of the housing strategy and in March 2007 launched the new “Lineamientos para la Aplicación del Programa de Modernización de Registros Públicos 2007”⁶ with a budget of US\$ 42 million and the expanded objective to unify the property, agrarian and commercial registries to form a “Registro Unico”. This new scheme will be led by the Secretariat of the Interior (Secretaria de Gobernación) and will allocate public funds to support the program, and establish the preparation of plans for registry modernization as the main precondition for the States to apply for the funds. To support the implementation of the new policy, the Bank will work jointly with the GoM to (i) give the plans the required elements to become an effective tool for the implementation of the framework and to improve the methodologies used by CONAVI, (ii) provide financial support for registries modernization, and (iii) to improve the modernization plans under preparation by SHF. In addition SHF and CONAVI have been working on the methodology and measurement of base line data to track the modernization progress and needs of each State. To date, 21 States have completed the base line data methodology. Given the allocated budget and importance of the modernization program for the new administration, CONAVI is confident that the agreed trigger of 18 States covering at least 80% of the population will be met by September 2007.

Policy Area 4: Low- and Moderate-Income Land Development

Under the proposed HUDPL III an analysis will be conducted of the costs and benefits of land development for low-income households and a pilot scheme will be undertaken to prepare a systematic guide for local governments on land issues. SEDESOL has been willing to enlarge the menu of land policy instruments through Hábitat or other mechanisms, and the policy matrix for the second loan included the completion of a cost-benefit analysis of different modes of land development as well as the design of an action plan to implement selected alternatives. Due to several delays the analysis will be completed by September 2007. The aim of the study is to obtain and analyze data on the price determinants of land destined for formal and informal settlements. Understanding the relative importance of each of the legal, economic and spatial variables over the price of land will help understand the main constraints that drive the prices of land to higher levels making it unaffordable for low-income housing. Once the diagnosis and analysis are presented, the study will recommend a set of policy actions and instruments (i.e. subsidies, regulatory reforms) to increase the supply of land for low-income housing. The methodology for analysis incorporates economic, legal and spatial analysis to be conducted in eight selected cities throughout the country. Cities were selected considering size,

⁶ See [http://www.ordenjuridico.gob.mx/Federal/PE/APF/APC/SEGOB/Lineamientos/2007/06032007\(1\).pdf](http://www.ordenjuridico.gob.mx/Federal/PE/APF/APC/SEGOB/Lineamientos/2007/06032007(1).pdf) for the official government notification and description of the program.

population growth, percentage of poor population, barriers to city growth, and change in land uses in the last 20 years⁷.

In parallel SEDESOL will prepare a pilot land diagnostic, assessment and action plan in the city of Mexicali, Baja California with the dual purpose to pilot this scheme in the city and to prepare a systematic operational guide to land assessment that will be further applied in other cities. The main objectives of this operational guide are to provide local governments a practical tool to prepare a land assessment in their respective cities and to increase the information on land demand and supply in the middle and large cities in order to launch more effectively - in a later stage - the policy instruments recommended from the land study being prepared.

Environmental Aspects of the Program

Policy reforms supported by the program will have significant environmental benefits. Informal settlements suffer from numerous environmental and social problems due to lack of basic services. Policies supported by the proposed loan—such as promoting slum upgrading; formal housing development in suitable, well-selected and designed areas; and streamlining environmental considerations into housing policies—will improve infrastructure provision, access to green spaces, public transportation, and social services, while reducing vulnerability to natural disasters as well as energy and water consumption. According to the analytical work completed to date, none of the reforms is expected to have significant negative environmental or social impacts. Some localized negative environmental impacts are possible from eventual implementation of programs supported by the loan, such as inconveniences due to construction activities or resettlement from risk-prone areas. As in many other Bank projects, these impacts will be managed through existing institutions and regulations.

The GoM is preparing a Strategic Environmental Assessment of the housing sector to include environmental considerations in the federal housing policies. In January 2007 CONAVI started the process of conducting a strategic environmental assessment (SEA) that would serve as a master plan to include environmental considerations into its policies and programs in coordination with SENER, CNA, IMTA, and SEMARNAT. The SEA ToR call for regional diagnosis and recommendations with regard to:

- Zoning and land use (including considerations on water availability, air quality, and green areas)
- Technologies (building materials and systems)
- Demography
- Financing (innovative instruments to finance environmentally-friendly houses)
- Utilities and public services (transport, access, energy use, water use, drainage, solid waste disposal)
- Standards (e.g., construction)

It is expected that the final version of the SEA should be ready by September 2007 with the launch of the Master Plan in January 2008.

Poverty and Social Impacts

This HUDPL III benefits from a PSIA that is currently underway. This PSIA particularly focused on affordable housing. It includes, among others: - i) a review of the existing analytical work (Bank and non-Bank assessments); ii) a review of secondary data (ENIGH- household survey, housing statistics

⁷ Selected cities are Tijuana, Ciudad Juarez, Queretaro, Xalapa, Durango, Colima, Campeche y Los Cabos.

from SHF); iii) an institutional analysis of the key operating agent for pro-poor housing subsidy policy, FONHAPO- which also included interviews with OREVIs-the State level housing agencies which execute FONHAPO subsidy program TU CASA; and iv) quantitative analysis of subsidies. While full results will be available by early July 2007.

Monitoring and Evaluation

Starting 2005 a set of monitoring indicators to accompany the DPL series was agreed between the Bank and the three implementing agencies to be delivered quarterly. In the case of the subsidy component, the indicators continue to be prepared and discussed by the subsidy working group which meets periodically. [Table 1](#) above shows selected key housing and urban indicators. In mid-2006 CONAVI suggested delivering the indicators on a semi-annual basis given that changes, particularly in the subsidy sector, tend to occur in the medium rather than the short term. As part of the discussions with the GoM to prepare the proposed third operation, the monitoring indicators will be revised to incorporate the new housing and urban subsidy programs and to ensure consistency and timely delivery of the information.

5. Tentative financing

Source:	(\$m.)
International Bank for Reconstruction and Development	100.00

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