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PROJECT PERFORMANCE ASSESSMENT REPORT

THE UNITED MEXICAN STATES

FOVI RESTRUCTURING PROJECT (LOAN 4443-MX)

**AFFORDABLE HOUSING AND URBAN POVERTY SECTOR ADJUSTMENT LOAN
(LOAN 7229-MX)**

**SECOND AFFORDABLE HOUSING AND URBAN POVERTY REDUCTION
DEVELOPMENT POLICY LOAN. (LOAN 7340-MX)**

**THIRD AFFORDABLE HOUSING AND URBAN POVERTY REDUCTION
DEVELOPMENT POLICY LOAN. (LOAN 7491-MX)**

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*Sector Evaluation Division
Independent Evaluation Group (World Bank)*

Currency Equivalents (annual averages)

Currency Unit = Mexican Peso (MXP)

1998	US\$1.00	Mxp 9.14	2002	US\$1.00	Mxp 9.66	2006	US\$1.00	Mxp 10.90
1999	US\$1.00	Mxp 9.56	2003	US\$1.00	Mxp 10.79	2007	US\$1.00	Mxp 10.93
2000	US\$1.00	Mxp 9.46	2004	US\$1.00	Mxp 11.29	2008	US\$1.00	Mxp 11.13
2001	US\$1.00	Mxp 9.34	2005	US\$1.00	Mxp 10.90	2009 (June)	US\$1.00	Mxp 13.24

Abbreviations and Acronyms

BANSEFI	<i>Banco de Ahorro Nacional y Servicios Financieros</i> - Bank of National Saving and Financial Services	ICB	International Competitive Bidding
BANXICO	<i>Banco de México</i> - Mexico's Central Bank	ICR	Implementation Completion Report
BORHIS	<i>Bonos Respaldados por Hipotecas</i> - Mortgage-backed Securities (=MBS)	IEG	Independent Evaluation Group
CAS	Country Assistance Strategy	IEGWB	Independent Evaluation Group (World Bank)
CEDEVIS	<i>Certificados de Vivienda</i> - (INFONAVIT's) Housing Certificates	IFC	International Finance Corporation
CNBV	<i>Comisión Nacional Bancaria y de Valores</i> - National Banking and Securities Commission	IMF	International Monetary Fund
CONAFOVI	<i>Comisión Nacional de Fomento a la Vivienda</i> - National Commission for Housing Development	INEGI	<i>Instituto Nacional de Estadística y Geografía</i> - National Statistical and Geographical Institute
CONAVI	<i>Comisión Nacional de Vivienda</i> - National Housing Commission (replaced CONAFOVI)	INFONAVIT	<i>Instituto del Fondo Nacional de la Vivienda para los Trabajadores</i> - National Housing Fund for Private Sector Workers
CONEVAL	<i>Comisión Nacional de Evaluación de la Política de Desarrollo Social</i>	M&E	Monitoring and Evaluation
CPS	Country Partnership Strategy	MBS	Mortgage-Backed Securities
DPL	Development Policy Loan	MW	Minimum Wage <i>Salario Mínimo</i>
ECPU	<i>Estrategia de Combate a la Pobreza Urbana</i> - Strategy for Combating Urban Poverty	NGO	Non-Governmental Organizations
FANNIE	(US) Federal National Mortgage Association	ONAVIS	<i>Organismos Nacionales de la Vivienda</i> - National Housing Agencies
MAE		PPAR	Project Performance Assessment Report
FONAIEVI	<i>Fondo Nacional de Apoyo Económico a la Vivienda</i> - National Fund for Economic Support for Housing	PROSAVI	<i>Programa Especial de Crédito y Subsidio a la Vivienda</i> - Special Program-Housing Loans & Subsidies
FONHAPO	<i>Fondo Nacional de Habitaciones Populares</i> - National Low-Income Housing Fund	SAL	Sector Adjustment Loan
FOVI	<i>Fondo de Operación y Financiamiento Bancario a la Vivienda</i> - Fund for Housing Operation and Finance	SEDESOL	<i>Secretaría de Desarrollo Social</i> - Ministry of Social Development
FOVISSSTE	<i>Fondo de la Vivienda del Instituto del Seguro Social al Servicio de los Trabajadores del Estado</i> - Housing Fund for Public Sector Workers.	SHCP	<i>Secretaría de Hacienda y Crédito Público</i> - Ministry of Finance and Public Credit
FREDDIE	(US) Federal Home Loan Mortgage Corporation	SHF	<i>Sociedad Hipotecaria Federal</i> - Federal Mortgage Corporation
MAC		SIL	Specific Investment Loan
Fundación CIDOC	<i>Centro de Investigación y Documentación de la Casa</i> - Housing Research & Documentation Center	SNIIV	<i>Sistema Nacional de Información y Indicadores de Vivienda</i> - National System of Housing Information and Indicators
GOM	Government of Mexico	SOFOL	<i>Sociedad Financiera de Objetivo Limitado</i> - Special Purpose Financial Institutions
HUSAL-I	Affordable Housing and Urban Poverty Sector Adjustment Loan (Ln7229)	UDI	<i>Unidad de Inversión</i> - Investment Unit (=Mxp4.21)
HUDPL-II	Second Affordable Housing and Urban Poverty Reduction Development Policy Loan (Ln7340)	VIVAH	<i>Programa de Ahorro y Subsidios para la Vivienda Progresiva</i> - Saving and Subsidy Program for Progressive Housing
HUDPL-III	Third Affordable Housing and Urban Poverty Reduction Development Policy Loan (Ln7491)	ZAP	<i>Zona de acción prioritaria</i> - Priority action zone (of <i>Hábitat</i> program)
HUTAL	Housing and Urban Technical Assistance Loan (Ln7261)		
IADB	Inter-American Development Bank		

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To prepare a Project Performance Assessment Report (PPAR), IEGWB staff examine project files and other documents, interview operational staff, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEGWB peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. IEGWB incorporates the comments as relevant. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

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Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

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This report was prepared by Roy Gilbert who assessed the project in February 2009. Romyne Pereira, Marie-Jeanne Ndiaye and María Margarita Sánchez provided administrative support.

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FOVI RESTRUCTURING PROJECT (LOAN 4443-MX)

Principal Ratings

	<i>ICR*</i>	<i>ICR Review*</i>	<i>PPAR</i>
Outcome	Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Institutional Development Impact**	High	Substantial	——
Risk to Development Outcome	——	——	Significant
Sustainability***	Likely	Likely	——
Bank Performance	Satisfactory	Satisfactory	Moderately Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

**As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.

***As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

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**AFFORDABLE HOUSING AND URBAN POVERTY SECTOR ADJUSTMENT LOAN
(LOAN 7229-MX)**

Principal Ratings

	<i>ICR*</i>	<i>ICR Review*</i>	<i>PPAR</i>
Outcome	Satisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory
Institutional Development Impact**	Substantial	—	—
Risk to Development Outcome	—	Significant	Significant
Sustainability***	Likely	—	—
Bank Performance	Satisfactory	Unsatisfactory	Unsatisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

**As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.

***As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

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**SECOND AFFORDABLE HOUSING AND URBAN POVERTY REDUCTION
DEVELOPMENT POLICY LOAN (LOAN 7340-MX)**

Principal Ratings

	<i>ICR*</i>	<i>ICR Review*</i>	<i>PPAR</i>
Outcome	Moderately Satisfactory	Unsatisfactory	Unsatisfactory
Institutional Development Impact**	Substantial	——	——
Risk to Development Outcome	Moderate	Significant	Significant
Sustainability***	Likely	——	——
Bank Performance	Moderately Satisfactory	Unsatisfactory	Unsatisfactory
Borrower Performance	Moderately Satisfactory	Unsatisfactory	Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

**As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.

***As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

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**THIRD AFFORDABLE HOUSING AND URBAN POVERTY REDUCTION
DEVELOPMENT POLICY LOAN (LOAN 7491-MX)**

Principal Ratings

	<i>ICR*</i>	<i>ICR Review*</i>	<i>PPAR</i>
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory
Risk to Development Outcome	Significant	Significant	Significant
Bank Performance	Moderately Satisfactory	Unsatisfactory	Unsatisfactory
Borrower Performance	Moderately Satisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

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Preface

This is the Project Performance Assessment Report (PPAR) for four operations in Mexico. They included: (i) the Fund for Housing Operation and Finance (FOVI) Restructuring Project (Ln4443), for which the World Bank approved a Loan of US\$500.0 million on March 4, 1999—the Loan was closed on June 30, 2005, two years later than planned, when it was fully disbursed; (ii) the Affordable Housing and Urban Poverty Sector Adjustment Loan (Ln7229), for which the World Bank approved a Loan of US\$100 million on June 8, 2004—the Loan was closed on December 31, 2004, as planned, when US\$0.5 million was cancelled; (iii) the Second Affordable Housing and Urban Poverty Reduction Development Policy Loan (Ln7340), for which the World Bank approved a Loan of US\$200.5 million on November 29, 2005—the Loan was closed on December 21, 2005, as planned, when it was fully disbursed; and (iv) the Third Affordable Housing and Urban Poverty Reduction Development Policy Loan (Ln7491), for which the World Bank approved a Loan of US\$200.5 million on November 27, 2007—the Loan was closed on June 30, 2008, as planned, when it was fully disbursed.

The report is based on a review of project documents, including the Implementation Completion Reports, Appraisal Reports, Program Documents, legal documents and project files, and on discussions held with Bank staff involved in the project. An IEG mission visited Mexico in February 2009 to review project results and met with nearly 50 interlocutors including officials of housing and urban development agencies at the federal, state and municipal levels. The IEG mission also traveled to Guanajuato State to visit local housing sites and property registry projects. IEG gratefully acknowledges the courtesies and attention given by all these interlocutors, as well as mission planning and logistical support provided by the Federal Mortgage Corporation (Sociedad Hipotecaria Federal, SHF) and the World Bank office in Mexico City.

IEG selected these operations for PPAR field assessments, as recommended following its review of their Implementation Completion Reports, to verify the performance of this important series of housing and urban development projects and to provide an input into a future IEG special study of housing.

Following standard IEG procedures, copies of the draft PPAR were sent to government officials and agencies for their review and comments. IEG received one communication (from the National Housing Commission (Comisión Nacional de Vivienda, CONAVI), which is attached as Annex C.

Summary

BACKGROUND

This Project Performance Assessment Report assesses the performance of four completed housing and urban development operations in Mexico, together involving US\$1.0 billion in Bank lending over the 1999-2008 period. The first operation reviewed, the FOVI (Fund for Housing Operation and Finance) Restructuring Project (Ln4443), used US\$500 million in investment lending to develop Mexico's *social-interest* housing that provided housing units for moderate income households from 1999 to 2005. The other three operations comprised adjustment and policy loans totaling US\$500 million also. The Affordable Housing and Urban Poverty Sector Adjustment Loan (HUSAL-I, Ln7229), approved in 2004, aimed to help low and moderate income households improve their living conditions. The Second and Third Affordable Housing and Urban Poverty Reduction Development Policy Loans (HUDPL-II and III, approved in 2005 and 2007, respectively) both sought to improve national policies and institutions for housing and urban development. One billion US dollars was a large amount by the standards of Bank lending, but perhaps not when measured against the scale of Mexico's housing sector. It amounted to just two weeks' revenues of the country's largest housing sector player, INFONAVIT (National Housing Fund for Private Sector Workers), for instance. In other respects, too, Mexico is a big country. In its two million square kilometer territory live 105 million people, 77 percent in urban areas. With a GDP of US\$878 billion, upper middle income Mexico has the 14th largest economy in the world.

The country's stock of 24.7 million occupied units, one of the world's largest, is close to the 24.8 million households in the population, but 4.6 million of these dwellings (18.6 percent of the total) are substandard or overcrowded. In Mexico 17.6 percent of the total population lives in poverty and cannot afford formal housing solutions like those offered by the operations reviewed here. The government relies on other programs to help the poor, such as the *Hábitat* program that the three development policy loans (DPLs) aimed to support for upgrading low income areas and the *Oportunidades* conditional cash transfers program.

Mexico's principal housing policy aim today is to produce one million housing solutions—ranging from the provision of new dwellings to minor improvements to existing ones—a year to meet growing demand and tackle some of the deficit. Moderate and higher income households at or above the 40th percentile of the income distribution can afford the formal housing solutions currently on offer in Mexico. Key constraints challenge housing reform. One is the large and complex institutional framework for housing and urban development, involving at least ten agencies with sometimes overlapping and conflicting agendas, with the direct involvement of the Congress and the Presidency. Another is the financial shallowness of the Mexican economy itself, where the share of people having access to financial services is only half that of Chile or Brazil, for example. Financial markets in Mexico have expanded and handle sophisticated lending products, but housing finance has yet to reach more low-income households.

Today, it is better understood for Mexico and other emerging economies that households below the 40th percentile (who include the poor) may not be able afford to buy formal housing through mortgage loans without subsidies. Below this level, other sector

programs, such as rental housing and slum upgrading, could help lower-income and poorer households who could have benefited a lot more from the operations under review here. But the three DPLs did not succeed in stimulating such programs. IEG found little evidence that assistance for the urban poor increased as a result of these operations.

OPERATION DESIGNS AND RELEVANCE

Although the lending instruments they used—a specific investment loan, a sector adjustment loan, and two development policy loans—differed, all four operations appropriately took aim at fundamental reforms of the sector. The objectives of the **FOVI Project** were modestly relevant to government and Bank priorities for the sector—especially while still focused upon social-interest housing. **HUSAL-I** had eight objectives covering many different areas of housing and urban development, setting out an ambitious scope for a 4-5 year program. These objectives were modestly relevant to government and Bank priorities for the sector, especially poverty targeting. **HUDPL-II** and **III** had excessive scope and similar objectives that remained modestly relevant, despite a continued lack of realism and a shift away from priority targeting of poorer beneficiaries.

The FOVI Project dealt with housing finance only. Its design was substantially relevant for including the necessary components, particularly institution building and funding for mortgages, to achieve the objectives. The three DPLs covered both housing and urban development. Their designs were pragmatic but did not provide the instruments needed to achieve the ambitious outcomes intended. For instance, they were pragmatic in leaving out INFONAVIT (National Housing Fund for Private Sector Workers), Mexico's most powerful and wealthy housing finance agency, over which the operations could be expected to exert little leverage. But ambitious and needed housing reforms, such as unifying housing subsidies through targeted up-front payments, are likely to be frustrated without the full engagement of this main sector player in charge of much larger interest subsidies.

Affordable housing and urban poverty reduction were rightly at the heart of these operations and figured in their titles. But the three DPLs were not explicit about the income levels of their target beneficiaries. For that reason, IEG examined who could afford the cheapest formal housing produced in Mexico's housing market, namely dwellings in the Mxp200,000-Mxp300,000 price range (US\$14,300-US\$21,400), and also who made up the urban poverty target group. At these prices and with market-based loans, IEG found that households in the 40th - 70th percentile of Mexico's income distribution could afford the cheapest units on offer. Up-front lump-sum housing subsidies—of up to Mxp 55,000 (US\$3,900)—of the type encouraged by the three DPLs—make housing more affordable one decile lower in the income distribution. INFONAVIT's (National Housing Fund for Private Sector Workers') below-market interest rates, a subsidy rightly questioned by the three DPLs, nevertheless moves housing affordability three deciles further down the income distribution. These interest-rate subsidies remain, by far, the most widely used in Mexico.

The political economy of their reform in a sophisticated middle income country such as Mexico poses major challenges not directly addressed by the three DPLs. IEG therefore assessed the affordability of the housing they supported across Mexico's household

income distribution. It also looked more closely at the 17.6 percent of all Mexicans—urban and rural—who live below the poverty line, who cannot afford formal housing solutions, and could benefit from upgrading programs, for instance. Found within the 0-20th percentile range of the income distribution, these poor beneficiaries were to benefit from DPL support to SEDESOL's (Ministry of Social Development's) *Hábitat* program of upgrading and community development in low-income urban areas. The earlier FOVI Project did not explicitly target these poor households.

Monitoring and evaluation (M&E) was weak under all four operations. The FOVI Project M&E had indicators identified for the baseline and target endlines but the data were not collected. The three DPLs lacked baseline data, program targets, and related performance indicators, particularly indicators that could track changes in affordable housing supply and demand, access by the poor to urban land, and the impact of the prior actions identified on physical and social investments in poor neighborhoods.

IMPLEMENTATION

The FOVI Project, which became effective in early 2000, was not implemented as planned. The incoming Fox administration decided to abolish FOVI itself in 2002, replacing it with a new development bank, SHF (Federal Mortgage Corporation), that later became the main implementing agency of the three subsequent DPLs. The government evidently concluded that restructuring FOVI by itself, while important, was not enough. Thirty-eight percent of the FOVI project loan had been disbursed before FOVI was abolished. The three follow-on DPLs went ahead much as planned, although the loan amounts for HUDPL-II and III were doubled during preparation, and HUDPL-III's start-up was delayed one year until late 2007 to give the new Calderón administration time to take full charge of sector operations.

The restructured FOVI Project replaced the initial project focus on social interest housing with broader attention to housing provision in general. Attention to low-income beneficiaries also lessened when HUDPL-II succeeded HUSAL-I—the latter an operation with a more explicit poverty focus. There were understandable reasons for these shifts. SHF (Federal Mortgage Corporation) was a new agency and it needed to establish its financial market credentials, something that it could not reasonably do by focusing on lower income clients only.

On the housing policy and institutional fronts, CONAVI (National Housing Commission) became an inter-ministerial coordinator for housing directly answerable to the Presidency. Prior to June 2006, it had been under SEDESOL (Ministry of Social Development). Transforming (National Housing Commission) from subordinate into master led to overlapping and conflicting government responsibilities for the sector.

Creating a unified housing subsidy system at the federal level to be built around transparent lump-sum grants to targeted lower income beneficiaries was a top aim of the three DPLs, but the related prior actions, such as setting up a CONAVI (National Housing Commission) working group to look at this, were only small steps in the direction of subsidy reform. However, the DPLs did lay out clearly the high costs of the continuing interest rate subsidies, still the main instrument in Mexico's housing sector practiced by INFONAVIT (National Housing Fund for Private Sector Workers) and also on a smaller scale by a similar fund for public sector workers.

The DPLs helped encourage housing credit through SHF (Federal Mortgage Corporation) as a second-tier bank that refinanced mortgage lending by non-bank financial intermediaries called *Sofoles* in Mexico. Sofoles also packaged loans into mortgage-backed securities sold on local financial markets, where private pension funds were the main buyers. Mortgage refinancing and securitization had begun in Mexico under the FOVI Project and expanded under the three DPLs. Well structured packages were launched, and securitization mobilized US\$4.3 billion in financing from 2004 to 2008, equivalent to nearly all of SHF/Sofoles mortgage funding over that period. Since the 2008-2009 global financial crisis, demand through these instruments in Mexico has declined as has private penetration of the country's housing finance market.

The design of the three DPLs focused more on the housing side, giving less attention to Mexico's urban development policy, despite their aim to strengthen this policy. However, each successive DPL modernized and extended the reach of property registries to more municipalities – an action aimed more at urban development than housing. SEDESOL's (Ministry of Social Development's) dialogue with the Bank over other actions, namely increasing urban land supply and improving living conditions through the *Hábitat* upgrading program, made little headway.

OUTCOMES

The FOVI Project succeeded in the institutional strengthening of the FOVI replacement, SHF (Federal Mortgage Corporation), and also mobilized funding for housing in general. This post-restructuring achievement became less relevant for the Bank, however, with the loss of the lower-income household targeting.

Preparing and implementing Mexico's 2007-2012 National Housing Program was an important process for updating policy that the three DPLs stimulated. But the complex institutional framework for housing in Mexico, which they had hoped to improve, remains in place. The creation of CONAVI (National Housing Commission) has not eased that complexity. The DPLs appropriately aimed to design and implement a unified federal subsidy system for Mexico, but they did not identify appropriate prior actions or recognize political economy constraints to achieving it. Mexico's major housing subsidies, mainly through INFONAVIT's (National Housing Fund for Private Sector Workers') below-market interest rates, remain in place and are used on an even larger scale than before. Support for up-front lump-sum subsidies, was not initiated by the three DPLs themselves. Such subsidies have existed in Mexico on a large scale at least since 2000, and currently account for 18 percent of all housing subsidies. Evidence that they target lower-income families efficiently is thin, with less than adequate reporting on them by CONAVI (National Housing Commission).

Strengthening the instruments of housing credit, especially through mortgage loan origination and underwriting, and bundling the loans into securities, proceeded well under the DPLs, but SHF/Sofoles primary mortgage lending did not grow over the 2004-2008 period. Measured either by the number of loans or by their volume, the shares of all lending going to affordable SHF (Federal Mortgage Corporation) mortgage lending shrank during this time. This meant that mortgage lending did not go down-market during 2005-2008 as the DPLs intended. A recent Bank publication on housing reports that Sofoles' mortgage lending has moved up-market along with their issuing mortgage-

backed securities. This trend is demonstrated by SHF's (Federal Mortgage Corporation's) own data (provided to IEG).

The achievements of the three DPLs with respect to urban development were few. The most important was modernizing and standardizing property registries in half the states of Mexico. The preparation and approval of Mexico's Urban Development Sectoral Program to accompany the 2007-2012 National Development Plan were late. IEG could find no evidence of the increased supply of urban land for the poor. DPL prior actions had little impact upon the *Hábitat* upgrading program that was to be the operations' main tool for assisting the poor. Disaster mitigation achievements were limited.

Since 2007, however, short-term micro-credit for home improvements aimed at the 40-70th percentile range in Mexico's income distribution has increased. But it still accounts for a small share of SHF (Federal Mortgage Corporation) lending operations, and has not by itself brought housing finance down-market as the DPLs intended. But micro-credit's role in housing, the number of its loans, and their volume should not be compared directly to long-term mortgage lending. As recent Bank technical literature has argued, micro-credits, while supportive, cannot assure access to housing by themselves. Also, being very small and quickly repaid, their revolving funds drive up lending figures rapidly over a short period. By contrast, larger mortgage loans that finance the complete purchase of a house tie up funding for extended periods allowing aggregate lending figures to accumulate only much more slowly.

Overall, housing assets in Mexico did not become more affordable and accessible to lower and moderate income families as intended. The three DPLs did not explicitly identify appropriate prior actions that would lead to such a result.

RATINGS

Taking both the before and after-restructuring performance into account, the overall outcome of the FOVI Project was **moderately satisfactory**. It mobilized more resources for housing, but relevance was reduced when it moved away from its original focus on lower income beneficiaries. The risk to development outcome is **significant** given the present market constraints in Mexico on the project-supported model of housing finance. Bank performance was **moderately satisfactory**, following a re-design that lost the project's low-income focus. Borrower performance was **satisfactory**.

HUSAL-I only achieved two of its eight intended outcomes with substantial efficacy, so that the overall outcome is rated **moderately unsatisfactory**. An up-market shift of mortgage lending makes the risk to development outcome **significant**. Bank performance is rated **unsatisfactory** because of the poor quality at entry of an operation that tried to cover too many bases, lacking performance measures in its design. Borrower performance is rated **satisfactory** at both the levels of the government and the implementing agencies.

HUDPL-II substantially achieved only one of its intended outcomes—strengthened property registers and rights – so its overall outcome is rated **unsatisfactory**. The weakening demand for the housing finance products supported by the operation makes the risk to development outcome **significant**. Bank performance was **unsatisfactory**, since it retained the excessive scope and ambition of its predecessor **HUSAL-I**, with only minor adjustments to a weak design. Borrower performance is rated **unsatisfactory** for

the failure to take mortgage lending down-market and for not following through with the radical housing subsidy reform envisioned.

HUDPL-III achieved nearly half its intended outcomes. Mortgage lending strengthened a little as volume picked up despite weakening of the overall market, but the intended down-market move did not occur. The overall outcome is rated **moderately unsatisfactory**. The risk to development outcome is rated **significant**. Bank performance is rated **unsatisfactory**; the operation's weak design was not improved. The government took steps toward institutional reform through setting up CONAVI (National Housing Commission), there was little progress with subsidy reform, housing finance did not move down-market, and Borrower performance is rated **moderately unsatisfactory**.

LESSONS

- The expected outcomes and scope of an operation should be subject to several reality checks at appraisal. An important one is to ensure that essential partners—such as INFONAVIT (National Housing Fund for Private Sector Workers) in this case—are fully on board and committed to the operation. If they are not, or cannot be engaged for reasons of political economy, then an operation's scope should be contained to cover the more modest outcomes that can reasonably be obtained without such partners.
- In large and sophisticated middle-income countries like Mexico, an operation should avoid promising sector-wide reforms when commensurate results cannot be realistically achieved in the short timeframe and with the relatively modest scale of assistance offered.
- Housing finance through mortgage lending encounters an affordability floor. Experience in Mexico shows that poorer households below the 40th percentile of the income distribution cannot afford the cheapest formal housing unit through a market-based mortgage loan without a subsidy. An affordability floor like this will vary from country to country, depending upon household income levels, house prices and interest rates.
- Operations aiming to support affordable housing and urban poverty reduction need to be explicit about their target beneficiary populations, with quantification of baselines and targets, and at completion, achievements.
- Contrary to down-market aims, establishing a sound reputation in financial markets and sustaining a high quality and expanding portfolio can lead a new mortgage financier up-market, by targeting higher income borrowers with larger loans. Markets perceive such loans as less risky. They are also less costly to manage and contribute more to business growth.

Vinod Thomas
Director-General
Evaluation

1. Background

1.1 The four operations reviewed here, a stand-alone investment project (SIL) followed by a series of three adjustment/development policy loans (SAD/DPL), represent significant Bank operational support to Mexico's housing and urban development sector through US\$1.0 billion lending over the 1999-2008 period.

1.2 The first, an investment operation called the "FOVI Project" (Ln4443) in this report, aimed to develop moderate-income housing, using a US\$500 million loan for FOVI (*Fondo de Operación y Financiamiento Bancario a la Vivienda* - Fund for Housing Operation and Finance) to re-finance more mortgage lending by private non-bank financial intermediaries called "Sofoles" in Mexico (*Sociedad Financiera de Objetivo Limitado*) and providing technical assistance to FOVI and its successor agency SHF (*Sociedad Hipotecaria Federal*), during 1999-2005.

1.3 The series of three adjustment/development policy loans, all called the "DPLs" in this report, were approved and implemented over the 2004-2008 period. The first of the three, HUSAL-I (Ln7229) in 2004, was a single tranche sector adjustment loan (SAD) of US\$100 million to help low and moderate income households in Mexico improve their living conditions and access to real assets. It had seven intended outcomes, and to achieve them, identified 14 prior actions by seven different agencies that ranged right across Mexico's large and complex housing and urban development sector (details Box 2 and Annex B). The second and third operations in the DPL series, HUDPL-II (Ln7340) and HUDPL-III (Ln7491), were single tranche development policy loans (DPLs) of US\$200.5 million each. Similarly to HUSAL-I, they set many ambitious intended outcomes and actions spread right across the sector (details Box 2 and Annex B).

1.4 All four operations reviewed here had the following features in common: (i) attention to housing and housing finance; (ii) the same principal implementing agency, namely SHF (which replaced FOVI in 2002); (iii) all but HUDPL-III have been fully repaid or prepaid by the Borrower.¹ These four operations followed long Bank experience in this sector Mexico, derived from US\$2.4 billion lending for seven urban development and housing projects in the 1985-1999 period.

1.5 Although large by Bank standards, the US\$1.0 billion Bank lending for the operations reviewed here pales by comparison with the scale of local resource flows into the housing sector in Mexico. What the Bank took ten years to disburse constitutes the volume of revenues acquired every fortnight by INFONAVIT (*Instituto del Fondo Nacional de la Vivienda para los Trabajadores* – National Housing Fund for Private Sector Workers). INFONAVIT, a housing provident fund mandated to collect five percent of workers' salaries withheld at source by employers, is Mexico's largest housing

¹. The related US\$7.7 million Housing and Urban Technical Assistance Project (HUTAL Ln7261-MX), is not **evaluated** here, since it closed in December 2008 six months after HUDPL-III when two-thirds of the HUTAL loan were cancelled. The HUTAL ICR noted that: "Together with the Program HUTAL failed to have measureable impact on the Mexican Housing Sector" (HUTAL ICR p. 19).

sector player and the country's principal mortgage financier.² Bank project leverage within the housing sector of a sophisticated middle-income country such as Mexico, especially over such a large agency, can only be limited. In spite of that, a 2004 study did conclude that the Bank wielded significant influence over the country's housing and urban development policies (Zanetta 2004 p. 272).

1.6 The scale of Mexico's housing and urban sector is indeed striking. More than 82 million people, 77 percent of the total population, lives in urban areas found across a 2.0 million square kilometer territory extending up to 2,000 kilometers from point to point. The 22 million living in the capital region make Mexico City the second largest urban agglomeration in the world. All this in a middle income country with a current GDP of US\$1.1 trillion, the 14th largest economy in the world. The housing stock—urban and rural—of 24.7 million units is one of the world's largest, a similar number to the 24.8 million households in the 106 million total population. But this is not a perfect match. Households at the top of the income distribution may occupy several dwellings. At the bottom end, they may have to make do with 4.6 million poorly built, unserviced or overcrowded units.³ Mexico's poor households cannot afford formal housing solutions (World Bank 2006a p. 24), but are targeted by GOM (Government of Mexico) anti poverty programs such as the *Oportunidades* conditional cash transfers, and the *Piso Firme* program that has laid concrete floors in 2.5 million homes that did not have them. The DPLs aimed to support SEDESOL's (Ministry of Social Development) *Hábitat* slum upgrading and community development program that also targeted poor families. These poor *urban* households help make up 17.6 percent of the total population, within the 0-20th percentile range of the income distribution, that are well below the level of income needed to pay for formal housing solutions on offer (Table 1).

1.7 Today, the first priority of GOM's current housing policy is to provide one million new housing solutions per annum (for all income groups), up from the previous administration's annual target of 750,000 (CONAVI 2006 pp. 33-40). That itself had been increased from prior levels of 350,000 units. A recent estimate puts the necessary housing supply at 733,000 new units plus 483,000 home improvements per annum over the 2007-2012 period of the National Development Plan (CIDOC 2009). Mortgage finance and housing subsidies, both supported by the DPLs, can be important instruments to achieve the one million goal. At the same time, GOM aims to increase the coverage of families with lower incomes. Reaching down to "affordable" housing was central to the operations reviewed here. In the absence of a precise definition of the income levels of beneficiaries of affordable housing in the *DPL* project documentation, IEG's own analysis shows that formal housing solutions in Mexico are affordable without subsidies

² In this way INFONAVIT collects US\$24 billion revenues per annum from Mexico's 14 million formal private sector workers, as well as the repayment of outstanding loans on its large portfolio. Its political autonomy GOM comes from the important roles of trade unions and private developers in its governance structure. Neither is a promising arena for the exercise of World Bank influence. "Since the late 1990s, INFONAVIT had been under the control of powerful labor unions, which had resisted any attempts at drastically reforming the housing agency." (Zanetta 2004 p. 286).

³ A recent Bank report entitled *Mexico 2006-2012: Creating the Foundations for Equitable Growth* reported that 25 million households live in substandard housing. But this number represents all households in Mexico and therefore cannot be correct (World Bank 2006a p. 37).

TABLE 1. THE POOR, AND HOUSING AFFORDABILITY ACROSS MEXICO'S INCOME DISTRIBUTION - 2006

Percentiles of income distribution#:	0-10 th	10-20 th	20-30 th	30-40 th	40-50 th	50-60 th	60-70 th	70-80 th	80-90 th	90-100 th
Income in Mxp millions	16,151	27,964	36,813	45,907	56,029	67,522	83,591	105,177	143,452	323,169
% of total income	1.8%	3.1%	4.1%	5.1%	6.2%	7.5%	9.2%	11.6%	15.8%	35.7%
Number of households (000's)	2,654	2,654	2,654	2,654	2,654	2,654	2,654	2,654	2,654	2,654
Household Minimum Wages * Maximum affordable monthly housing payment (Mxp)**	≤ 2	2.1 - 3.0	3.1 - 4.0	4.1 - 5.0	5.1 - 6.0	6.1 - 7.0	7.1 - 8.0	8.1 - 10.0	10.1 - 16.0	≥ 16.1
Maximum price of affordable house (Mxp): ***	800	1,200	1,600	2,000	2,400	2,800	3,200	4,000	6,400	na
- Market solution (13% interest)	75,871	113,807	151,742	189,678	227,614	265,549	303,485	379,356	606,970	na
- INFONAVIT heavy interest subsidy (4% interest****)	146,686	220,029	293,372	366,715	440,058	513,401	586,744	733,430	1,173,488	na
- CONAVI Mxp 55,000 lump-sum subsidy	130,871	168,807	206,742	244,678	282,614	320,549	358,485	788,430	1,228,488	na
Beneficiaries of World Bank housing and urban development operations	<p>Clients of FOV "social interest housing" (Only affordable without subsidies above 40th percentile)</p> <p>SHF micro-credits</p> <p>Clients of DPL "affordable housing" (Moderate-income households who can afford formal housing)</p>									
	<p>Clients of DPL "poverty reduction" (Low-income households who are poor)</p>									

Source: INEGI inegi.gob.mx Notes:

Income distribution of Mexico's population as a whole. A separate income distribution of the urban population has not been published since 2004. Earlier data showed urban income distributed more unequally than rural income, with an urban Gini coefficient of 46.2 and a rural Gini coefficient of 49.5 for 2002, for instance (World Bank 2005 pp. 104-105).

* For this study one Minimum Wage - MW (salario mínimo) = Mxp. 1,600 per month, equal to the mean of the values set by GOM in January 2009. The MW bands shown here are close proxies for most deciles in the income distribution. INEGI reports the percentiles at the top ends of the MW bands for 2006 as follows: ≤ 2 MWs - 9%, 2.1-3.0 MWs - 21.1%, 3.1-4.0 MWs - 33.7%, 4.1-5.0 MWs - 44.9%, 5.1-6.0 MWs - 54.7%, 6.1-7.0 MWs - 62.2%, 7.1-8.0 MWs - 68.3%, 8.1-10.0 MWs - 77.8%, 10.1-16.0 MWs - 90.4%, ≥ 16.1 MWs - 100.0%.

**Affordable monthly housing at top of decile band. Corresponds to 25% of total household income (significantly higher than the 19.4 percent reported by INEGI's 2006 survey of household expenditures).

***Key assumptions: affordable house price at top of decile band to be paid 90% via a 20 year loan at 13% interest per annum (Sofol rate). Households have savings to afford a 10% down-payment.

**** Mxp values expressed here of loan amounts and debt service that INFONAVIT contracts in units of Minimum Wages

only to households with moderate incomes above the 40th percentile of the income distribution. This floor of affordability would be higher still, without the conservative assumptions and parameters of IEG's analysis, that include: (i) households spending 25 percent of their income on housing,⁴ and (ii) measuring household income from the top of each decile in the income distribution. On the other hand, using 2006 household incomes to assess affordability of 2009 house prices, may slightly underestimate affordability due to the 10-11 percent inflation over the 2006-2009 period in Mexico. The present review assumes that these positive and negative effects cancel each other out. The finding of the 40th percentile floor of affordability is important for the subsequent evaluation which is why the detailed analysis is presented here at the beginning of this review (Table 1).

1.8 The institutional framework for housing in Mexico, the target of reform sought by the operations reviewed here is far-reaching and complex. Indeed, "framework" in the singular may itself be an over-simplification, given the autonomy of several key housing sector players and the simultaneous separation and yet overlap of housing and urban policy. There may be several "frameworks". The range and status of housing agencies in Mexico embraces two autonomous provident/pension funds, a federal ministry, a development bank, an inter-ministerial commission and private non-bank financial intermediaries, all with oversight by both the Congress and the Presidency. Responsibilities and mandates can overlap. Conflict can arise in some cases. There is no single ministry of housing. The ICR (implementation completion report) of the DPLs noted that these complexities posed major challenges for the Bank-financed operations (ICR p.6) involving at least eight housing agencies. But Mexico's two largest housing finance agencies, INFONAVIT and FOVISSSTE (Housing Fund for Public Sector Workers) were not party to the operations reviewed here. On the urban side, SEDESOL was involved in the DPLs, but contributed to the institutional framework reform to a limited degree only. Housing finance, featured strongly in all four operations reviewed here, has great potential and yet faces many constraints in Mexico. Not least of all is the limited financial depth of Mexico's economy, evidenced by the relative lack of development of the financial sector. In 2007, only 38 percent of Mexicans had access to banking services, less than half Brazil's 96 percent and Chile's 90 percent. In 2006, domestic credit to the private sector in Mexico was only 23 percent of GDP, against 80 percent in Brazil and 83 percent in Chile. The traumas of the "Tequila" crisis of 1995 left commercial banks in Mexico wary of mortgage lending, leading them to cut it altogether except for low-risk high-income clients. Housing finance in Mexico has since expanded and now uses the most sophisticated of financial products, but it still reaches few families in the lower deciles of the income distribution (World Bank 2006a p. 11).

1.9 Apart from the World Bank itself, other lenders have been active in the housing and urban development sector in Mexico over the 1998-2008 period covered by the four operations reviewed here. The Inter-American Development Bank (IADB) has supported

⁴ The 25 percent norm applied in this analysis is conventionally used worldwide, but may overstate affordability in the case of Mexico, where a 2006 Household Expenditure by INEGI (Mexico's National Statistical and Geographical Institute) found that only 6.8 percent of all household spending went on housing and utilities. Another 12.6 percent went on the imputed rental costs of housing, which, not involving an actual monetary expenditure, may not readily translate into the explicit financial payment by a household that servicing a mortgage loan requires.

the sector in Mexico on a large scale for many years, often working in parallel with the World Bank. It provided a US\$500 million loan to FOVI for housing finance and lent a similar amount to SEDESOL for the *Hábitat* slum upgrading program. In 2008 IADB approved a new loan for SHF (Federal Mortgage Corporation), the client of the DPLs reviewed here, in an amount of US\$500 million to finance housing credit for low-income beneficiaries. This was part of a US\$2.5 billion conditional line of credit. During 2006-2008 the International Finance Corporation (IFC) financed credit and equity of private mortgage finance institutions, the *Sofoles* mentioned earlier.⁵

2. Relevance to Mexico's Housing & Urban Reforms

OBJECTIVES

2.1 *FOVI Project - Modestly relevant overall; substantially so when project objective was focused upon moderate income beneficiaries of social housing at the outset, but later negligible after broader objectives covering housing generally, lost the focus on lower income beneficiaries (Box 1):* By aiming to consolidate and restructure FOVI, created in 1963 as one of Banxico's (Mexico's Central Bank) several sectoral funds, the FOVI project supported much-needed post-1995 reconstruction of Mexico's devastated housing finance system that commercial banks had quit. It helped re-tool mortgage finance and provide loans for housing once again.⁶ The FOVI project's initial emphasis was upon what was called "social interest" housing in Mexico—dwellings for moderate income households earning 4-8 MWs (minimum wages, Mxp. 6,400 – Mxp. 12,800 per month,⁷) found in the 30th – 70th percentile range of the income distribution (Table 1). These original objectives remain substantially relevant to the latest 2008 CPS (Country Partnership Strategy) and its emphasis upon reducing poverty and inequality and strengthening institutions. With the abolition of FOVI and the creation of its replacement SHF, however, the FOVI *Restructuring* Project was itself *restructured* by the Bank. In the process, its poverty relevance was lost when a revised objective covered all housing, rather aiming at moderate-income families only. But a new SHF needed to gain credibility in the financial markets, something that could not be achieved by serving the poorer segment only.

⁵. These included a warehouse line of credit of US\$70 million to *Su Casita* to finance mortgages, a similar credit of US\$20.6 million to *Credito y Casa*, and a US\$40 million revolving credit facility to *Hipotecaria Vertice* aimed particularly at mortgage loans for energy efficient housing.

⁶. Similar to today's housing crisis in the United States, booming real estate in pre-1995 Mexico was led by abundant securitized debt, poor credit screening and credit volume excesses. During 1989-1994, the volume of mortgage lending grew by 47 percent per annum in real terms, reaching 2.4 percent of GDP. Following the crisis, property values fell 63 percent between 1995 and 1998 GDP (Zanforlin 2008 p. 5).

⁷. The minimum wage (*salario mínimo*) is set annually by GOM for three different regions covering all of Mexico. As of January 2009, the range is Mxp. 1,644 per month for the Federal District and Mxp. 1,560 per month for poorer states. This report uses a near mean value of Mxp1,600.

Box 1. FOVI Project Objectives and Components	
Objectives	Components (with costs in US\$ millions)
<p>Original objectives - covering 38% of disbursements: To develop the social interest housing* sector through:</p> <p>(a) restructuring and institutional strengthening the Banking Finance Fund for Housing (FOVI) b) increasing the flow of funds for social interest housing</p>	<p>Institutional Strengthening (appraisal cost US\$29.7m.; actual cost US\$29.7m.) - incl: (a) primary and secondary market development; (b) M&E of implementation of the new subsidy policy; (c) financial strategy development, with long-term plan for accessing capital markets and obtaining a recognized credit rating for FOVI; (d) corporate reorganization of FOVI to develop credit management, funding management and asset-liability management functions; and (e) project management.</p> <p>Subsidies (appraisal cost US\$727m.; actual cost US\$727m.) - GOM's Ministry of Finance up-front subsidies, not financed by the Bank Loan.</p> <p>FOVI (GOM Housing Finance Fund) Lending Plan (appraisal cost US\$6,548.3m.; actual cost US\$6,548.3m) (components unchanged after project restructuring)</p>
<p>Revised objectives - covering 62% of disbursements: To develop Mexico's housing* and housing finance system through:</p> <p>(a) restructuring and institutional strengthening of the Banking Finance Fund for Housing (FOVI)**; (b) increasing the flow of funds for Mexico's housing and housing finance system.</p>	
<p>IBRD Loan: US\$505 million committed; US\$505 million disbursed.</p> <p>* The original objective's focus upon developing Mexico's "Social interest" (i.e. moderate-income) housing was broadened to cover housing in general in the revised objective. ** Although FOVI still figured in the revised objective, it had in fact ceased operations as an organization and its activities were absorbed by the newly created SHF.</p>	

2.2 In 2002, the incoming Fox administration abolished FOVI altogether with its poor mortgage origination practices and untargeted subsidies. The successor SHF, a newly created development bank, took over FOVI and the FOVI Project and later became the financial intermediary for the DPLs. As a Banxico fund, FOVI could not raise money in financial markets, guarantee others' debts, nor could it securitize mortgages, constraints considered too serious for a housing finance agency to be effective. FOVI had become what today might be called a 'bad bank' and its place was taken by a 'good bank', namely SHF. SHF inherited FOVI's management, staff and office building, and 15 percent of its assets, the best ones, to start up the balance sheet of the new agency well. FOVI's annual financial statements are still kept and reported separately by SHF, but they whittle down each year as old FOVI loans are paid off. IEG noted that its balance sheet is not entirely dormant, however, since FOVI funds were used recently by SHF to re-finance mortgage older loans denominated in MWs (minimum wages) to more affordable UDI (*Unidad de Inversión*) through debt swaps.⁸

2.3 ***HUSAL-I Operation – Modestly relevant with objectives targeting poor and moderate income households, but spread across many areas at once and the intended outcomes were not always clearly articulated with DPL supported prior actions (Box 2):*** By itself, the overall program objective was substantially relevant to CPS priorities, including poverty reduction through improvements to the living conditions of the poor and broadening the access to housing by moderate-income households. Apart from wanting to assist the poor directly, project documentation also aimed to move housing finance systems "down-market", but without specifying the baseline or target parameters of such a shift. From Table 1, this evaluation recognizes the 40th percentile in the income distribution as the floor of such a down-market move.

⁸. Since 1995 many mortgage loans in Mexico were denominated in "Investment Units" (*Unidades de Inversión -- UDIs*) to prevent the erosion of the Mxp value of such contracts during inflation. UDI values are determined periodically by Banxico. Contracts in UDIs are more affordable than contracts denominated in multiples of MWs (minimum wages) whose value has increased more rapidly than UDIs.

2.4 As GOM's ministry with major responsibilities for policy toward the urban poor, SEDESOL was closely involved in the early stages of project preparation, but less so as Bank and GOM attention within the *DPLs* shifted from urban slum upgrading toward housing. But what the *DPLs* intended to achieve remained extraordinarily ambitious and wide-ranging, especially trying to achieve them in a housing and urban development sector the size and complexity of Mexico's.

Box 2. Objectives of Mexico's Housing and Urban Development Program	
- as supported by HUSAL-I:	- as supported by HUDPL-II and HUDPL-III:
<p>Overall objective: To assist the Government's efforts over a three-year period to improve the living conditions of the poor and strengthen access to real assets of low-income people to real estate assets, notably housing and serviced land</p> <p>Specific objectives</p> <ul style="list-style-type: none"> to develop a sound national policy and institutional framework for housing and urban development. to design and put in place a consistent and unified housing subsidy policy that facilitates access of low/moderate-income families to housing and leverages household savings and private credit finance. to strengthen the housing credit and savings systems, and move these systems down-market. to strengthen urban real property registries and rights. to increase the supply of urban land and access by the poor and improve this market's function. to coordinate physical and social investments to systematically upgrade poor neighborhoods. to better prevent and manage the impacts of natural disasters. 	<p>Overall objective: (none)</p> <p>Specific objectives <i>(bold text highlights changes from HUSAL-I):</i></p> <ul style="list-style-type: none"> to support GOM's efforts to improve national policies and institutions for housing and urban development. to make the federal housing system more efficient by designing and implementing a unified system of subsidies to facilitate access to housing by low and moderate-income families. to bolster systems for housing loans and savings and move them down-market. to strengthen urban real property registries and rights. to increase the supply of and access to urban land for poor people and improve this market's functioning to coordinate and support physical and social investments in poor neighborhoods to increase capacity to prevent and manage the damage caused by natural disasters.
<p>Sources: HUSAL-I PD Loan and Program Summary p. vi and p. 17. HUDPL-II PD Loan and Program Summary p. vii and HUDPL-III PD Loan and Program Summary p. ii.</p> <p>Note: For summary details of DPL actions and indicators, see Annex B.</p>	

2.5 The expectation of establishing a unified housing subsidy system in a context where inefficient and non-transparent interest rate subsidies prevailed on a huge scale, was not realistic over the short-term covered by this series of *DPLs*. Strengthening housing credit and savings systems and taking them down-market, too, was a tall order. The shallowness and limited penetration of such finance was a challenge that the *DPLs* could have appraised more fully through a market assessment. Rental housing as a policy option was not considered for these *DPLs*. On natural disasters, HUSAL-I had the ambitious objective "to better prevent and manage the impacts of natural disasters", later more realistically downgraded under HUDPL-II and III to just "increasing the capacity" to achieve the same thing. Although relevant to Mexico, a country vulnerable to natural disasters of many kinds, the small scale of prior disaster mitigation actions identified by

the *DPLs*—45 community actions under *Habitat*⁹—were unlikely to deliver the intended outcome, namely reducing Mexico’s major cities’ vulnerability to natural disasters. Likewise, increasing the urban land supply for Mexico’s 8.0 million urban poor was out of scale and beyond the scope of the prior actions identified by the HUSAL-I to achieve. Modernizing property registries was a more focused and realistic objective, and the one that achieved the best results. HUSAL-I’s detailed policy matrix with the expected program outcomes is summarized in Annex B of this report. While it indicated the ambitious direction the program intended to follow, without explicit baselines, targets and performance indicators related to the objectives, it did not provide the basis for an effective monitoring and evaluation (M&E) system that the program needed.

2.6 *HUSAL-I* preparation started in early 2000 on a different platform, as a Federal District Urban Development Project for Mexico City. In 2001, that changed to become preparation of a National Urban Upgrading Program with SEDESOL, that later chose to pursue with IADB instead. Only in late 2003 did the preparation of the World Bank operation begin to take the form of the Affordable Housing and Urban Poverty Sector Adjustment Loan (HUSAL-I) that was approved in mid-2004.

2.7 ***HUDPL-II and HUDPL-III Operations – Modestly relevant. While they did not retain HUSAL-I’s unduly ambitious overall objective, HUDPL-II and III retained HUSAL-I’s others spread across many policy areas. Those dealing with policy, poor neighborhood upgrading and natural disaster mitigation were somewhat more realistic. But another became more ambitious yet, promising greater efficiency through the achievement of unified subsidies. The limited symbiosis between the housing and urban development sides of the operations remained (Box 2):*** Through adding “urban poverty reduction” to their titles, both HUDPL-II and III highlighted a World Bank priority. In the *DPL* designs, support for physical and social investment in poor urban neighborhoods and poor people’s greater access to urban land were the prior actions of choice (Box 2). For these complex tasks, each DPL identified just one prior action that, by itself, could contribute little to achieving the intended outcomes. For HUDPL-II, it was SEDESOL’s strengthening of the *Habitat* program through participatory planning at the community level. For HUDPL-III, it was increasing the urban land supply for low income beneficiaries by GOM’s completing a pilot cost:benefit analysis of urban land development. Thus the distance between the operations’ intended outcomes and the instruments that had been deployed to achieve them was greater under HUDPL-II and III than HUSAL-I. In other respects, the designs of all DPLs followed a similar format.

OVERALL DESIGN

2.8 The *FOVI* project had more unity in its design, being focused exclusively upon housing finance and dealing with one agency only. The DPLs, on the other hand, were split evenly between housing and urban development, leaving them to deal with a housing financier SHF; a housing policy coordinator, CONAVI; and federal ministry responsible for urban development policy and programs—SEDESOL. These three key partners did not always work in tandem. Today it is widely recognized in Mexico and

⁹ The prior actions were SEDESOL carrying out at least 30 community-level risk analyses and 15 sensitization and mitigation projects under *Habitat* program.

elsewhere that housing finance is an instrument of urban development that can affect the spatial configuration of cities, how efficiently they function, as well as their contribution to the environment and climate change. Overall coordination is crucial. The FOVI project design was *substantially relevant* for focusing clearly upon the components needed to achieve the project's stated objectives. The DPL operations' designs were twin-tracked, split between housing finance on the one hand and urban upgrading and land development investments in poor urban areas on the other. Each side, the housing and the urban, had a similar number of objectives and prior actions related to it. Each successive DPL, ranging from HUSAL-I to HUDPL-III had an almost identical design. Overall, that design is rated to be *modestly relevant* for not making the link between the housing and urban development sides clear, and for honing in on prior actions unlikely to achieve the ambitious objectives set.

FOVI COMPONENTS

2.9 ***FOVI institutional strengthening:*** This was well conceived, initially in providing technical assistance to help FOVI reform and adopt more rigorous loan origination and credit assessment, as well as targeting its loans for moderate-income beneficiaries. After project restructuring, TA continued but shifted toward helping the newly created SHF, FOVI's replacement, adopt modern working practices, establish a sound financial reputation and deepen the securitization of mortgages in Mexico. ***FOVI housing subsidies:*** These were largely left to GOM, through its Ministry of Finance (SHCP) to fund, using its own resources, while rightly giving attention to prioritizing up-front lump-sum subsidies. ***FOVI housing finance:*** The project gave financial support to second-tier mortgage lending initially by FOVI and then by SHF. Bank funding pooled some of FOVI/SHF mortgage operations, and was not directed at particular borrowers or a particular income class of client.

DPL HOUSING ACTIONS

2.10 ***Stable macroeconomy (for sector policy):*** As demanded by OP 8.60 of all policy loans, these DPLs required the maintenance of an adequate macroeconomic policy framework—especially one achieving price stability, balanced public finances and steady economic growth—in support of their housing and urban development policy framework. While macroeconomic stability may indeed be a necessary condition for these DPLs to succeed, the operations themselves did not provide instruments or incentives for achieving this, nor were they required to. Nevertheless, this DPL requirement served as a reminder of the Ministry of Finance's (SHCP) responsibility, as borrower, to keep its eye on the macroeconomic ball during project implementation.

2.11 ***National housing policy and harmonization of institutional roles:*** While it lacks a sectoral ministry specifically responsible for housing, Mexico consistently maintained sector policy within the framework of the country's six year national development planning process. The approval of the 2001 - 2006 housing sector policy under this plan was appropriately identified as a prior action for the approval of *HUSAL-I*. Follow-on *HUDPL-II* and *III* still retained the objective of developing a sound national policy, and

yet identified no prior actions at all¹⁰, lessening the relevance of a design that could have identified policy updates and implementation, and prior actions to keep policy moving forward. *DPL* support in policy formulation and updating was substantially relevant, especially for providing an opportunity for targeting lower income beneficiaries. Harmonization through a weak CONAVI coordination role was not a realistic *DPL* action, given the large scale and complexity of Mexico's housing institutions. The relevance of *HUSAL-I* prior action of harmonizing the actions of CONAVI, SHF, FONHAPO and FONAEVI was weakened by the absence from the list of INFONAVIT and FOVISSSTE, Mexico's main mortgage players.¹¹ Harmonization requires careful consideration of the political economy of the roles of the Congress, the Presidency, INFONAVIT, FOVISSSTE, housing developers and contractors. In later comments on this PPAR, the Country Department confirms that the direct participation of INFONAVIT, as a large off-budget organization, was indeed beyond the scope of the program. Leaving out INFONAVIT, the largest sectoral player in Mexico over which *DPLs* like these could exert little leverage, was a realistic operational move, but it should have led to adjusting the *DPLs'* objectives toward more modest aims that could be achieved without these agencies.

2.12 *Unified federal subsidy for housing:* The *DPL* idea of unifying housing subsidies in Mexico using a system of up-front lump-sum payments to beneficiaries was an attractive one, but not realistic in a housing finance system where below-market interest rate subsidies by mortgage giants like INFONAVIT and FOVISSSTE prevail. The design of an operation aimed at subsidy reform needs to consider the political economy of the subsidy systems in place, such as the targeted clients of both direct subsidies and hidden off-budget subsidies in below-market interest rates and tax breaks. *DPL* criticism of the hidden interest rate subsidies was harsh, but appropriate: "Traditionally, these [below-market interest] loans have crowded out the private sector, hindered the mobilization of private savings, reduced liquidity in the private housing market, and provided few housing options for low-income households." (HUDPL-II PD p. 43). Despite the criticism, *DPL* did not specify actions to reform them. *HUSAL-I's* prior actions such as GOM's mandating that the FONHAPO/FONAEVI subsidy program be efficient, progressive and equitable, CONAVI setting up a working group to study subsidies, and FONHAPO establishing a database of beneficiaries, could only be very small steps where large strides were needed to move toward designing and implementing a unified subsidy system for low and moderate income families.

2.13 HUDPL-III's prior action in this area was GOM's mandate of a unified housing subsidy program that was efficient, progressive and equitable. It included preventing the combination of subsidies from various GOM programs (called "double dipping"); establishing consistent rules for beneficiary selection, (by income group, for instance); and linking the receipt of subsidies to household savings. HUDPL-III monitoring indicators of the number of low-income beneficiaries receiving subsidies and the average

¹⁰ Some "indicative" actions had been identified a priori for HUDPL-II and III under *HUSAL-I*, but they were dropped and therefore did not become prior actions for the last two operations.

¹¹ Prior to the appraisal of HUDPL-II, the Bank's Regional Operations Committee (ROC) decided to exclude INFONAVIT as a target of the *DPL* supported housing reform, even though the HUDPL-II PD had included a two-page annex on the "INFONAVIT's Reform Program".

subsidy per household cannot by themselves show if the reform goal of unified subsidies was achieved. One better indicator was HUDPL-III's ratio of up-front subsidies to interest rate subsidies.

2.14 *Strengthening mortgage lending, its legal framework and bringing it down-market:* Making credit more widely available to families wishing to buy a house remains a high priority in Mexico's consolidating but still shallow financial system. The DPLs focused upon improving the mortgage instrument itself and securitizing more of them. Securitization had begun much earlier in Mexico, and had developed significantly under the FOVI Project. The DPLs focused upon the instruments of mortgage lending, giving less attention to the broader market of the likely supply and demand of housing finance, and especially its lower income segment. In this, the DPLs fell short in not identifying prior actions to help assure that the financing instruments would serve lower income home buyers, thereby driving lending down-market. Instead, the DPLs relied on technical assistance to help Mexico develop high quality financial products for mortgages, with concern about their reaching a lower income market segment in second place.

DPL URBAN ACTIONS

2.15 *Modernization of property registers:* Ensuring that property rights are accurately recorded and information readily available is essential for housing transactions and their finance to take place and succeed. Prior to the DPLs, each state in Mexico had its own system that was rarely compatible with the others', making standardization urgent. With the support of Bank expertise in this area, GOM was expected to provide technical assistance to states for this purpose. Prior actions for all DPLs were, appropriately, of states having implemented modernization on an increasing scale with each operation. This was a highly relevant action, but the chosen performance indicator, the time taken to register a property, was only a partial one. It did not monitor the extent or impact of the registration modernization, which would require other indicators not proposed by the DPLs.

2.16 *Urban development policy:* The DPLs rightly highlighted the need for policy to guide urban development, but highlighted only very partial prior actions to achieve it. HUSAL-I foresaw that a national urban development and "territorial planning" policy would be formulated by CONAVI, yet SEDESOL was still the ministry responsible. Surprisingly, HUDPL-II and III specified no prior actions needed in this area, undermining the design relevance of operations still committed to strengthening urban development policy.

2.17 *Coordinating and supporting investments in poor neighborhoods through slum upgrading:* This was the DPL action most directly concerned with the poverty reduction announced in operations' titles. One prior action first identified by HUSAL-I, was using poverty mapping to target GOM social programs such as *Habitat*. While work on DPL-sponsored poverty mapping had been done by SEDESOL, evidence of how widespread it was and how effectively it guided investments by *Habitat* and other social programs was not systematically monitored. Another, recognized by all three DPLs, was greater community participation in the design and implementation of SEDESOL's *Habitat*

program to increase the program's efficiency.¹² But IEG did not find evidence of the DPL-supported community participation making the giant US\$1.0 billion *Habitat* program more efficient as intended. Earlier IEG evaluations have shown that elite capture by some community leaders can undermine efficiency in targeting the poor. Furthermore, protracted processes of participatory planning can delay service delivery and undermine its efficiency. This may help explain why HUDPL-III, at the end of the series, did not identify prior actions in this area, even while keeping the same objective.

2.18 *Low and moderate-income land development:* HUSAL-I sought to achieve more of this through streamlining state and municipal land registration of newly developed land. Prior actions of SEDESOL assessing state and municipal land regulations in two regions, completing an inventory of developable land and analyzing the legal and financial options for residential land development were necessary first steps. But such actions and studies by themselves could not increase the supply of urban land for the poor. HUDPL-II retained this objective specifying as a prior action the completion of a cost-benefit analysis of land development. Due to contracting delays, the completion of this study was waived as a requirement for HUDPL-II, and deferred until HUDPL-III. But how can a study like this increase the supply of urban land for the poor? The 2007-2012 national development plan foresaw the need for 82,000 hectares of serviced urban land over the planning period, approximately half of it for poor households. Other actions are clearly needed. DPL preparation briefly considered land pooling through the *Habitat* program as one solution, but it did not materialize. Increasing supply requires many parallel actions across the urban land market—something not pursued by the DPLs.

2.19 *Risk and mitigation analysis of natural disasters:* Natural disaster mitigation is unavoidably an essential ingredient of all urban development and housing construction in Mexico, a country vulnerable to an array of natural disaster risks. Nearly 80 percent of the country's areas prone to flooding are urban. City populations are the most at risk from earthquakes. City governments therefore have an important role to play in disaster mitigation through spatial planning and building regulation enforcement. Specific disaster mitigation actions fall under municipal government responsibility and therefore cannot be implemented by the federal government, the level of government responsible for the DPLs. Thus, the DPLs could only approach disaster mitigation through the federal *Habitat* program. But the DPLs held to the ambitious objective of better preventing and managing the impacts of natural disasters (HUSAL-I) generally, or increasing the capacity to do so (HUDPL-II and III). Through identifying prior actions as being only the preparation of 30 risk analyses, 15 sensitization projects, and 10 land-use proposals, all for the *Habitat* program, HUSAL-I under-estimated the scale and scope of interventions needed to begin to achieve its objective.

THE DESIGN OF HOUSING AFFORDABILITY AND URBAN POVERTY REDUCTION

2.20 How relevant were the designs of these DPLs to affordable housing and urban poverty itself? Issues behind this important evaluation question have been given much

¹² The program officially measures GOM's "asset poverty" through: (i) income per capita; (ii) educational shortfalls in the household; (iii) access to health care; (iv) access to social security; (v) housing quality and space standards; (vi) access to basic housing services; (vii) access to food; (viii) degree of social cohesion.

attention by Bank country work in Mexico. The 2008 CPS (Country Partnership Strategy), for instance, sees “two worlds” where poverty takes hold in the south of the country, while in the north income per capita approaches the level of the southern United States. It also noted that: “In the realm of housing, the spectacular expansion of recent years has not reached the lowest deciles of the income distribution” (Banco Mundial 2007 p. 30) and furthermore: “a good part of the increased availability of housing has not met the needs of the poor segments of the population (Ibid. p. 38).¹³ By aiming, initially at least, at supporting “social interest” housing designed to be affordable by households in the 4-8 MWs bracket (currently Mxp 6,400 – Mxp 12,800 per month), the FOVI operation was more explicit about income level targeting, something less clear in the later DPLs. Although designed to tackle “affordable housing” and “urban poverty”, these DPLs did not specify exactly which target beneficiary income groups they had in mind. This was why IEG looked more closely at this question.

2.21 Using the most recently data available (for 2006) Table 1 (on page 3 of this report) shows the distribution of income of all Mexican households (both urban and rural). At the bottom end of the distribution is 17.6 percent of Mexico’s population officially reported as being poor, occupying nearly all of the first two decile ranges of the distribution. Thus the 0-20th percentile accommodates poor urban families, the targeted beneficiaries of the DPLs’ prior actions on the urban poverty side of these operations. If market-based parameters of mortgage lending were applied, they could not afford to buy today’s cheapest formal housing units, at around Mxp. 200,000 (US\$14,300) each. The DPLs did not plan to assist them with housing. They were to be helped through SEDESOL’s *Hábitat* upgrading and community development program of poor urban areas.

2.22 The next question is who would benefit from “affordable” housing programs supported by the DPLs? An answer can be found by locating these beneficiaries of the on Mexico’s income distribution (details Table 1 p.3). From that analysis, IEG found that households between the 40th to the 70th percentile can afford to buy with a mortgage loan without subsidies the cheapest new units available today (in the Mxp 200,000 – Mxp 300,000 price range or US\$14,300-US\$21,400.¹⁴ If a house buyer can obtain INFONAVIT’s most heavily subsidized loan with annual interest of 4 percent, then affordability moves 30 percentiles down the income distribution to the 10th percentile. A CONAVI lump sum subsidy also makes housing more affordable, moving it 10 percentage points down to the 30th percentile (Table 1)

2.23 These affordability findings are in line with other estimates. Thus an earlier assessment by the International Monetary Fund (IMF) of Mexico concluded that “mortgage lending reaches only a very few households that earn less than the median income” (IMF 2006 p. 4). A recent study of the sector in itself concluded that: “over 50 percent of the population still lacks the resources to gain access to a dwelling of the sort currently offered by the formal market in the country” (Fundación CIDOC 2008 p. 37).

¹³ Later comments by the Country Department on this PPAR confirmed that it was never the objective of the DPLs to move mortgage finance, for instance, to the poorest quintiles of the population.
¹⁴ HUSAL-I’s benchmark of the lowest cost of an affordable house at Mxp 224,000 (US\$16,000) is within this range (HUSAL-I PD p. 3 footnote 5).

HUSAL-I's appraisal, noteworthy for coming after the mortgage lending efforts of the earlier FOVI Project, still concluded that Mexico's "mortgage institutions provide virtually no credit for the lower-cost housing solutions suited to the low/moderate-income majority" (HUSAL-I PD p. 5). The 40th percentile affordability floor—well above the poverty line—is well understood today, but HUDPL-II proposed that housing for low-income families would be one of the "key aspects of poverty that the loan would address" (HUSAL-PR p.2). HUDPL-II used the terms "low-income housing" and "affordable housing interchangeably (HUDPL-II PD p. a footnote 2). Since households that can afford the housing on offer are found in the 40th – 70th percentile range that spans the median income, it would be more appropriate to describe these beneficiaries as being "moderate income", the term used throughout this report. HUDPL-III, the last in the series, made no explicit reference to target beneficiary income levels.

MONITORING AND EVALUATION (M&E)

2.24 FOVI Project - Negligible: M&E design was initially strong, and included a set of quantifiable performance targets (e.g. increase of FOVI's market share; minimum annual proceeds from FOVI securitization; number of low-income mortgages funded etc.) to be achieved. But, after restructuring, they were replaced by a weaker set of indicators that were more qualitative (e.g. improvements to information systems, and completing a satisfactory design of an insurance product etc.). M&E could still include targets for and indicators of basic financial ratios of the project's financial intermediaries. In practice, neither set of indicators was monitored, so M&E could not be utilized as feedback for guiding and improving the operation's performance.

2.25 DPLs - Negligible: The DPL ICR is correct to note that "The lack of PDO indicators makes it very difficult to gauge the Program's progress in achieving its goals." (ICR p. 8). Indeed, M&E design at the outset of HUSAL-I was weak to the point of raising questions about whether there was an M&E system at all. Program targets to achieve through the first loan were not laid out explicitly, nor were performance indicators or other means of measuring the achievement of the overall or specific program objectives spelled out. As noted earlier in this report, operations that had "affordable housing" and "urban poverty" in its title and objectives, lacked criteria to identify the targeted beneficiaries. This contrasts with earlier Bank-financed operations in Mexico had typically positioned their beneficiaries on the income distribution. Still without baselines and targets, M&E under HUDPL-II and HUDPL-III showed little improvement. Without an effective M&E system in practice it could not be implemented or utilized. The ready availability of good quality secondary data in Mexico on the housing and urban development sector, and beneficiary incomes suggest that assembling a meaningful M&E for operations such as these can be successful in the future.

3. Implementation

MEXICO'S GOOD MACROECONOMIC PERFORMANCE

3.1 Throughout the decade the operations reviewed here were implemented, Mexico turned in a strong macroeconomic performance (Table 2). Until the global financial crisis of 2008-2009 GDP growth had been steady, recovering quickly from the impact of the US economy slowdown of 2001-2002. By 2002, inflation fell to levels that did not adversely affect affordability, enabling a financial market to function with confidence, as reflected in a stable Mxp:US dollar exchange rate until 2008. During the 1998-2008 period under review interest rates fell, even more sharply than inflation. Recent years have shown a significant growth of stocks traded, indicating an expansion of the local securities market. The deepening of the 2008-2009 global financial crisis, however, is being felt in Mexico, through devaluation of the local currency, and inflation resulting in higher country risk assessment. As elsewhere, this has made investors averse to debt instruments such as the mortgage-backed securities supported by the operations reviewed here. All this is a backdrop to the general slowing down of the housing and construction sectors (Fundación CIDOC 2009). Nevertheless, Mexico did maintain macroeconomic stability over the 2004-2008 DPL period, as intended (Table 2).

TABLE 2. MEXICO: MACROECONOMIC INDICATORS 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP growth (annual %)	4.9	3.9	6.6	-0.2	0.8	1.4	4.2	2.8	4.8	3.3	1.8
Inflation, consumer prices (annual %)	15.9	16.6	9.5	6.4	5.0	4.5	4.7	4.0	3.6	4.0	5.1
Average official exchange rate (Mxp per US\$)	9.1	9.6	9.5	9.3	9.7	10.8	11.3	10.9	10.9	10.9	11.1
Lending interest rate (%)	26.4	23.7	16.9	12.8	8.2	7.0	7.4	9.7	7.5	7.6	8.7
Deposit interest rate (%)	15.5	11.6	8.3	6.2	3.8	3.1	2.7	3.5	3.3	3.2	3.0
Stocks traded, total value (% of GDP)	8.1	7.5	7.8	6.4	4.3	3.7	6.3	6.9	9.5	12.9	10.0
FOVI project timeline:											
DPL operations timeline:											

Source: World Development Indicators

CHANGES DURING IMPLEMENTATION

3.2 This assessment highlights three different ones. First, design moves lessened the focus on low-income beneficiaries, through the revision of the FOVI Project objectives mentioned earlier, and through HUDPL-II and HUDPL-III not retaining HUSAL-I primary objective of improving the living conditions of the poor and strengthening low-income access to housing. But all three DPLs kept "poverty reduction" in their titles. Second, at the request of GOM, the loan amounts for HUDPL-II and III originally planned for US\$100 million each both doubled to US\$200.5 million. Third, the DPL program was extended from four to five years with the 12 month launch delay of HUDPL-III to give the incoming Calderon administration time to take the operation fully on board. Apart from these changes, all operations were fully implemented, much according to their respective plans.

3.3 During 2007, with Mexico's public finances buoyed by rising crude oil prices, GOM pre-paid all outstanding World Bank loans for housing and urban development, with the exception of the most recent one, HUDPL-III.

FOVI PROJECT IMPLEMENTATION

3.4 Lending picked up quickly after the project was approved in 1999. Prior to the abolition of FOVI itself, 38 percent of the loan had been disbursed. But, judging from later remarks about FOVI's weaknesses, used to justify its abolition, reform of mortgage loan origination and targeting had barely begun. Institutional strengthening really got under way with the successor SHF after project restructuring at the end of 2002. It was mostly financed by GOM counterpart funding. Only US\$4.4 million of Bank loan funding was used for institutional strengthening out of the US\$23 million committed. The difference was reassigned, with Bank agreement, to refinance more mortgage loans. After restructuring, a much broader business plan for SHF was agreed with the Bank that covered credit risk analysis, subsidies and the issuance of mortgage-backed securities (MBS). The remaining 62 percent of disbursements were made under SHF. Given the two-year interruption to implementation while the FOVI-SHF transformation took place, the project closing date was extended two years later than planned.

DPL HOUSING ACTIONS

3.5 ***Formulating national housing policy and harmonization of institutional roles:*** Within the framework of Mexico's six year national development plans, CONAVI formulated the country's 2007-2012 National Housing Program. CONAVI itself was established in June 2006 as an inter-ministerial commission responsible for coordinating housing policy. Institutional strengthening of SHF in particular, enabled this development bank to retain a (local) AAA credit rating. IEG learned that an explicit GOM guarantee for SHF debt, helped assure SHF's good creditworthiness. SHF's own guarantees and lines of credit as a second-tier bank enabled non-bank private sector intermediaries, Mexico's *Sofoles*, to prosper through lending for house construction and purchase. Following the initial growth and consolidation of the SHF system, SHF retained an exit strategy. SHF aimed to withdraw from mortgage lending altogether by 2009. This was to allow more space to private financing of mortgage loans. By moving in this direction, the asset value on SHF's balance sheet nearly halved between 2004 and 2007. The complete withdrawal envisioned did not take place, however, with the tightening of the housing finance market. *Sofoles* still looked primarily to SHF to refinance their mortgage loans. At the same time INFONAVIT and FOVISSSTE continued to dominate housing finance in Mexico, actually increasing their market shares during the 2004-2008 period.

3.6 ***Designing and implementing a unified federal subsidy for housing and making it more efficient.*** Bank supervision and its "fee for service" inputs led to a workshop in Cuernavaca organized by CONAVI's working group on subsidies. A detailed study of the present value of all housing subsidies in Mexico laid bare the high costs incurred by INFONAVIT and FOVISSSTE's below-market interest rate loan that continued to proliferate. In an unusual role for a coordinating agency, CONAVI took charge itself of providing lump-sum subsidies directly through its *Esta es tu Casa* program. This was an update of the earlier PROSAVI (Special Program for Housing Loans and Subsidies) program for families in the 2-4 minimum salary range begun under the FOVI project.

3.7 ***Strengthening the housing credit and saving systems and move them down market.*** This action received most attention from the Bank during implementation. More fee for service contracts, enabled the Bank to deploy well qualified staff and consultants who were highly appreciated by their Mexican counterparts. Special attention was given to mortgage loan origination, borrower risk assessments, documentation of mortgage loans, securitization and mortgage insurance. IEG learned that a private sector competitor had bid three times the price of a Bank fee for service contract. The principal DPL target was mortgage lending by Sofoles. Although such lending increased sharply during 2004-2005, it fell back in subsequent years. INFONAVIT's and FOVISSSTE's continued to grow, and on an ever larger scale.

DPL URBAN DEVELOPMENT ACTIONS

3.8 ***Improved urban development policy.*** The Bank gave less attention to urban policy than to housing policy. Differences in interpreting technical assistance contracts led to difficulties in the dialogue between the Bank and SEDESOL, the operations' principal urban sector interlocutor. Bank staff did not always find SEDESOL representatives fully engaged in the program's objectives and actions. SEDESOL officials found Bank support for its actions untimely and the advice given by different Bank staff unclear and sometimes contradictory. Although with some delay, SEDESOL did produce an update of the 2007-2012 National Urban Development and Territorial Planning Program, a requirement of Mexico's national planning system.

3.9 ***Strengthening urban real property registries and rights.*** Successively under each DPL, Mexico added two, five and then eleven more states to those modernizing their registries, assisting altogether 18 out of Mexico's 32 states. HUTAL supervision fielded technical expertise to the SHF and CONAVI. At the same time, the Inter-American Development Bank (IADB) provided inputs directly through its own state-level projects.

3.10 ***Increasing supply of and access to urban land for poor people.*** With only partial and incomplete prior actions identified to achieve this, the DPLs paid little attention to this aspect of the program. The *Hábitat* program was under such severe spatial constraints that it was unable to provide additional land needed, as intended.

3.11 ***Coordinating and supporting investments in poor neighborhoods.*** The relevant prior action was through giving SEDESOL's *Hábitat* upgrading and community development program a stronger community participation and poverty focus. But a HUTAL study of increased community participation in the program, and poverty mapping of an unknown number of interventions in municipalities could not assure the expected outcome of increased efficiency of slum upgrading through *Habitat*.

3.12 ***Increasing the capacity to prevent and manage the damage caused by natural disasters.*** Only HUSAL-I among the three DPLs identified any prior actions to achieve this ambitious goal, and these were small-scale and partial in the face of the major disaster mitigation efforts needed in a large disaster vulnerable country like Mexico.

4. Outcomes

FOVI PROJECT

4.1 *Developing social interest housing (before project restructuring) and then, later, housing generally (after project restructuring) through restructuring¹⁵ and institutional strengthening of FOVI - Substantially achieved:* Prior to project restructuring at the end of 2002 (with 38 percent of the loan disbursed) FOVI took steps to begin tightening loan origination and underwriting processing and credit risk analysis. The improvements were taken further by SHF, FOVI's replacement development bank. SHF's administrative performance in developing housing finance, such as its lending per employee, improved during 2002-2005.

4.2 *Developing Social Interest Housing (before project restructuring) and then, developing housing generally (after project restructuring) through increasing the flow of funds to them - Substantially achieved:* Before project restructuring, outstanding mortgage loans on FOVI's balance sheet increased by 67 percent from Mxp 24.1 billion in 1998 to Mxp 40.3 billion in 2001 when it formally ceased operations.¹⁶ While this shows greater FOVI support for housing finance in general, it does not demonstrate that the support went to social interest housing in particular. Prior to project restructuring, FOVI's social interest housing finance increased by 41 percent, but this was only half the rate of expansion of all FOVI financed housing. After project restructuring, the outstanding loan portfolio on SHF's balance sheet rose fivefold from Mxp 18.4 billion in 2002 (its first year of operation) to Mxp 94.9 billion in 2005, when the FOVI project closed. Clearly, this financing helped develop housing generally. But without a social or poverty focus, this objective had become less relevant.

DPL HOUSING ACTIONS

4.3 *Maintaining a stable macroeconomic framework - Not rated:* As already noted, Mexico's performance throughout the 1999-2008 period was good (Table 2), earning the country an investment grade rating in 2001 on its public debt for the first time. But these results, several of which pre-dated the DPLs, cannot be attributed with confidence to housing operations that did not focus upon incentives or specific actions in this area.

4.4 *Developing and improving national housing policy and harmonizing institutional framework - (efficacy ratings: HUSAL-I, modest; HUDPL-II, modest; HUDPL-III, modest):* Through the formulation of the *Programa Nacional de Vivienda 2007-2012* a national housing policy was established in Mexico by 2006 as HUSAL-I had expected. But it difficult to identify later policy contributions by HUDPL-II and HUDPL-III that did not indicate prior actions in this area. Results on the institutional side were mixed and achievements somewhat less than on the policy side. As noted earlier in

¹⁵. The FOVI project with "restructuring" in its title, was itself restructured by the Bank in late 2002.

¹⁶. FOVI's balance sheet is still reported annually by SHF, and in 2008 showed outstanding "commercial credits" of Mxp 18.1 billion, considerably below the 2001 peak. In its post-PPAR mission review of these financial statements, IEG found that FOVI's outstanding mortgage loans more than doubled between 2004 and 2005, showing that, albeit defunct as an organization, FOVI is not defunct as a financial operation.

this report, the creation of CONAVI through the 2006 *Ley de Vivienda* was the principal institutional innovation in the sector, but it does not seem to have clarified the roles of key players in the housing sector or harmonized the interactions between them, the intended results of the DPLs. On housing subsidies, for instance, it remains unclear where the responsibilities of SEDESOL end and CONAVI's begin. CONAVI's policy and coordination authority over INFONAVIT and FOVISSSTE is not evident. The Congress and Presidency, too, are key players in the country's housing sector. Unclear and overlapping responsibilities have, at times, led to conflict among stakeholders. The sought-for harmonized institutional framework remains an elusive goal. Nevertheless, INFONAVIT's relationship with other housing sector players, notably SHF, was harmonious. INFONAVIT officials also readily met with Bank missions, and collaborated with HUTAL's subsidy study, even though it had not signed up to that operation.¹⁷ But IEG heard from several interlocutors Mexico City that effectively harmonizing the sector requires a strong ministry of housing that the country still lacks.

4.5 The DPLs can be credited with helping the institutional strengthening of SHF, allowing it to become one of Mexico's most profitable and efficiently run development banks (Fitch Ratings 2007). SHF's move toward its "sunset" clause of complete withdrawal from mortgage refinancing was halted in 2009 in response to the disruption of financial markets. Finding buyers for mortgage-backed securities placed by *Sofoles* became more difficult. With tightening cash flows, *Sofoles* had to continue to seek SHF refinancing of their mortgage loans. But SHF's already reduced involvement is evident from the Mxp. 51.5 billion of outstanding loans on its balance sheet in 2008, down from Mxp. 83.8 billion at the start of the DPL series in 2004. In the short run, SHF's financial situation was complicated by its sudden exposure in 2007 to short-term bank loans of Mxp11.7 billion (US\$1.1 billion), some 15.5 percent of total liabilities. SHF took out these loans from commercial banks to fund a spurt in the demand for mortgage lending, a move that aggravated the term mismatch between its assets (18.1 years on average) and liabilities (8.7 years on average). SHF's 2004 balance sheet showed only Mxp376 million (US\$33 million) in short-term bank loans, or 0.4 percent of total liabilities. In response to a GOM request, the Bank has provided a new 30-year US\$1.0 billion loan to SHF, with a GOM guarantee, to help shore up its balance sheet and resume mortgage lending, and hopefully taking it down-market.¹⁸

4.6 A positive institutional result of the DPLs is that Mexico's banking regulator, the CNBV (*Comisión Nacional Bancaria y de Valores* – The National Banking and Securities Commission) now plays an important role in the housing sector. Through careful oversight and regulation of mortgage finance instruments and the debt issuers themselves, CNBV has provided quality assurance for financial dealings in housing.

¹⁷ IEG would like to be able to report more on FOVISSSTE (Fondo de la Vivienda del Instituto del Seguro Social al Servicio de los Trabajadores del Estado – Housing Fund for Public Sector Workers), the public sector equivalent to INFONAVIT and a major housing player in its own right, although also not signed up to the DPLs. IEG requested a meeting with FOVISSSTE, but it did not take place.

¹⁸ To finance the Mexico: Private Housing Finance Markets Strengthening Project (Ln7614) approved in November 2008, and aiming to: (i) strengthen the financial capacity of SHF to develop and consolidate markets for housing finance and to expand access to lower income groups over the medium-term, and (ii) improve SHF's technical capacity to expand access to lower income groups over the medium-term.

4.7 Designing and implementing a unified federal subsidy for housing and making it more efficient (efficacy ratings: HUSAL-I, negligible; HUDPL-II, negligible; HUDPL-III, negligible): Mexico is still very far from having designed and implemented a unified system of up-front lump-sum housing subsidies for low and moderate income families, the ambitious Program objective supported by the DPLs. Although the DPLs focused upon housing subsidies financed directly by the federal budget, by any measure, the most important housing subsidies in Mexico were and continue to be off-budget interest rate subsidies in mortgage loans awarded by INFONAVIT. These charge interest as low as 4 percent against market rates of the order of 12-14 percent. Apart from criticizing them, the DPLs did not target initiating their reform during the program. Currently, Mexico has no explicit strategy in place to reform them over the long-run. They are popular among home buyers, because their present value is worth five or six times more than the lump-sum subsidies presently offered by CONAVI or SEDESOL. Table 3 shows how INFONAVIT's most heavily subsidized lending grew during 2004-2008, while the share of lending with lighter subsidies shrank.¹⁹ INFONAVIT's total lending, all subsidized continues to grow. In 2008, it was nearly twice the level of 2004.

TABLE 3. INFONAVIT MORTGAGE LENDING BY DEGREE OF SUBSIDY 2004-2008

Category of subsidy:	(percent of total lending)				
	2004	2005	2006	2007	2008
Heavy subsidy (at 4%-5% interest)	7.0	9.0	14.0	19.6	20.4
Moderate subsidy (at 6%-7% interest)	34.9	39.2	36.1	34.0	31.7
Light subsidy (at 8%-9%* interest)	58.2	51.8	49.9	46.3	47.9
Total lending (billions of Mxp)	59.7	67.8	77.5	88.5	107.7

Note * the maximum INFONAVIT interest rate was raised from 9 percent to 10 percent in 2008

4.8 DPL support of up-front subsidies was appropriate. They are more efficient, transparent and accountable. But they are not new to Mexico. Most of the up-front lump-sum housing subsidies GOM provides today are updates or variants of older programs such as *VIVAH* (*Programa de Ahorro y Subsidios para la Vivienda Progresiva* – Saving and Subsidy Program for Progressive Housing) and *PROSAVI* that funded US\$132 million already in 2000 (Zanetta 2004 p. 91). According to CONAVI's budget estimates, some US\$866 million will be spent on subsidies in 2009, a six fold increase over this period, but accounting for only 18 percent of the total value of all housing subsidies in Mexico. Generally these subsidies can be used by beneficiaries to help finance housing construction or improvement, but they are not targeted or administered in a standardized way as the DPLs had hoped. About half of them—some 200,000 per year at up to a maximum of Mxp53,000 (US\$3,600) each, is provided through CONAVI's *Esta es tu Casa* program, while the other half comes through the similarly named *Tu Casa* program of SEDESOL's trust fund FONHAPO. IEG was unsuccessful in obtaining the latest details of the numbers and income levels of the beneficiaries of these subsidies, and it was not clear how records of these data are kept. IEG did not meet with FONHAPO and a request for data from CONAVI did not yield the necessary information. IEG did learn,

¹⁹. This evidence does not support the HUDPL-II conclusion that INFONAVIT subsidies had fallen since 2004 (HUDPL-II PD p. 43).

however, that most CONAVI subsidies went to INFONAVIT loan borrowers, who thereby benefited from two subsidies. This was the so-called “double dipping” that DPLs had hoped to avoid (HUDP-II PD p. 40), but which had reached 72,804 cases by 2007.

4.9 The ICR of the DPL highlighted the success in CONAVI’s setting up a working group on subsidies as a prior action for HUSAL-I. The group functioned well and helped highlight once more the constraints and challenges facing housing subsidy reform in Mexico. But, while the working group deliberated, the objective of designing and implementing the unified subsidy system has yet to be achieved.

Strengthening the housing credit and saving system and moving it down-market. (efficacy ratings: HUSAL-I, substantial; HUDPL-II, negligible; HUDPL-III, modest): Mexico’s housing credit system strengthened through improved origination and underwriting procedures over the 2004-2008 period. SHF helped establish standard mortgage loan agreements among all Sofoles, enabling their loan underwriting to be more timely and secure. Mainly through foreign insurers, SHF applied mortgage insurance, a somewhat new instrument to Mexico, to 23 percent of loans in 2005. But the expansion of mortgage finance was mostly on the INFONAVIT side of the market. The smaller SHF/Sofoles side shrank. Over the 2004-2008 period SHF/Sofoles share of new mortgage lending had fallen from 19.3 percent to 8.9 percent. But neither side saw the down-

TABLE 4. MEXICO: EVOLUTION OF MORTGAGE LENDING FOR AFFORDABLE HOUSING 2004-2008

SHF (Sofoles)#	2004	2005	2006	2007	2008	total (2004-2008)
All new loans:						
- number	34,303	47,701	28,834	25,104	29,454	165,396
- volume in billions of current Mxp	11.5	14.2	9.0	8.5	9.6	52.8
*Affordable new loans:						
- as share of total number (%)	53.0	64.3	59.0	48.4	47.6	
- as share of total volume (%)	32.2	43.9	37.8	28.0	25.4	
INFONAVIT	2004	2005	2006	2007	2008	total (2004-2008)
All new loans:						
- number)	295,863	358,540	400,554	440,657	485,556	1,981,170
- volume in billions of current Mxp	59.7	67.8	77.5	88.5	107.7	401.2
*Affordable new loans:						
- as share of total number (%)	98.9	97.7	96.8	93.5	87.2	
- as share of total volume (%)	98.0	96.1	94.7	89.7	76.6	

Sources: SHF and INFONAVIT

Notes: # These figures do not include funds mobilized exclusively by private sector Sofoles without SHF refinancing that are not recorded by SHF. * Affordable lending here consists of loans of Mxp300,000 or less that households in the 40th – 70th percentile range of the income distribution can afford to service at market rates. A key assumption here is that all smaller loans will be taken by the lowest income households that can pay to service them. If higher income households took out some of the smaller loans the up-market trend would be stronger than reported here. This phenomenon cannot be measured by this present evaluation that did not have data on the income levels of beneficiaries of every individual loan. With a Mxp.300,000 benchmark loan expressed in current prices, inflation of 18.0 percent per annum and increase of 16.2 percent in the minimum salary over the 2004-2008 period in Mexico will help affordability, but not enough to invert the trend reported here. The data kindly provided by SHF and INFONAVIT does not allow an analysis of constant deflated values as it consists of a time series of cohorts of loan size expressed in the reported financial values at the time the loans were awarded.

market move intended by the DPLs, as their own data show (Table 4)²⁰. The up-market shift of SHF/Sofoles lending was confirmed by a new Bank publication: “In recent years, the Sofoles have issued mortgage securities and moved more up market.” (Chiquier et al. p. 40). Under HUSAL-I during 2004-2005, SHF/Sofoles lending grew sharply and the affordable housing share of the total rose, a strong efficacy performance. HUDPL-II during 2005-2006 saw the level of lending fall, and, moreover, the share going to affordable housing shrink—the opposite result to that intended by the DPLs. During 2007-2008, HUDPL-III the volume of lending increased, but the affordable share continued to fall—not a satisfactory outcome.

4.10 The IEG mission visited two housing schemes of the affordable type supported by the DPLs that were completed in 2008 outside Mexico City. The Urbanización Campo Vina in Guanajuato State and the Urbi site in Mexico State were large developments of houses sold to moderate income households who took out mortgage loans with INFONAVIT, FOVISSSTE or one of the *Sofoles*. Both housing schemes were located far from their respective regional urban centers. They consisted of two-floor 72 square meter row-house modules to which one more floor could be added above and an extension built at the back. Most units had been sold but some were still unoccupied. The sales prices were in the Mxp 250,000-300,000 (US\$17,000-20,000) range, affordable to the 50th – 70th percentile range of the income distribution (details: Table 1), where households with moderate income are found.

4.11 SHF has tried to move other lending down-market through micro-credit Mxp 5,000-Mxp 10,000 (US\$350-US\$700) loans, for home improvements and self-help construction. Such loans are typically for terms from 6 months to two years with interest of up to 53% per annum (3.6% monthly) driven by the high administrative costs of these very small lending operations (DPL ICR p. 23)²¹. SHF awarded its first micro-credits experimentally in 2005 and 2006, with just 45 and 1,336 new loans respectively. By 2008, SHF approved 123,000 such loans for a total of Mxp 918 million (US\$65 million),²² but they still account for only 5 percent of SHF’s total lending²³, not enough to bring to move housing finance down-market as the DPLs intended.²⁴ Clearly, a lot more

²⁰ The volume of INFONAVIT’s annual mortgage lending in 2008 was Mxp 48 billion (approx US\$4.4 billion) more than in 2004. Of the total increase, 63 percent went to financing housing affordable without subsidies. The remainder, 37 percent went to funding higher income housing. Over the prior 2000-2004 period finance the growth of INFONAVIT funding was at a similar rate, but accounted for 98 percent of the total increase. Higher income housing accounted for just 2 percent of that increase.

²¹ “It is unlikely that housing micro-finance interest rates will ever fall to the same level as those charged for consumer or mortgage loans by banks.” (Chiquier et al. p. 411).

²² The number of micro-credits and the volume lent cannot be compared directly with the number of value of mortgage loans because of the sharply different terms of each instrument. Since mortgage loans, on average, are for terms that are 15 times longer than for a micro-credit, an amount of, say, US\$25,000 could finance only one mortgage loan over a 15 year period, whereas the same financing could fund up to 15 micro-credits in a total amount of US\$375,000 over a 15 year period.

²³ “Even in the most favorable circumstances it is difficult to envision more than 10 percent of any country’s households to access housing micro-finance (HMF) loans. The small size of HMF loans implies that even with deep market penetration, HMF loans will weight [sic] a small percentage of the total financial sector.” (Chiquier et al. p. 409).

²⁴ Data cited here was provided by SHF to IEG and shows 123,023 micro-credits awarded in 2007-2008 in an amount of Mxp 0.9 billion. Over the same period, 54,558 SHF-financed mortgage loans were awarded

has to be done. According to the DPL-ICR, “Compared to other middle income countries in the region, housing microfinance products and market penetration in Mexico is in its infant stages” (p. 22). In other respects, Mexico’s experience with housing micro-credits reflects what the Bank has found elsewhere.²⁵ Moderate income clients—in the 40th – 70th percentile range of the income distribution—have been the main beneficiaries thus far, according to the DPL ICR (p. 24).

4.12 Mortgage-backed securities (MBS) issued by SHF/Sofoles and called *Borhis* in Mexico mobilized Mxp. 48.4 billion (US\$4.3 billion) resources for housing during 2004-2008, the highest in Latin America, but still equivalent to only 1.4 percent of all housing finance in Mexico over this period (Table 5). But, so far, this has not translated more SHF/Sofoles lending, whose volume declined as noted earlier (Table 4). Without this secondary mortgage finance there could have been an even sharper decline. It came through 44 auctions of MBS²⁶ over the 2004-2008 period, 77 percent of which were rated AAA by credit rating agencies in Mexico. They were readily subscribed by pension funds and insurance companies. INFONAVIT, too, issued its own MBS, called *Cedevis* in Mexico raising Mxp28.1 billion (US\$2.8 billion) through 16 auctions, again all rated AAA and all fully subscribed. SHF/Sofoles’ MBS helped mobilize the equivalent of about 10 percent of all housing finance in Mexico over the 2004-2008 period, an important contribution, but clearly not the main source of strengthening housing credit in the country. Although detailed data is not available for this evaluation, MBS is unlikely to have made housing more affordable, since securitization has taken mortgage finance up market in Mexico as the Bank studies cited earlier found (Chiquier et al. p. 40). To be attractive for securitization, mortgage loans need to be held by low-risk borrowers, more likely to be less-leveraged higher-income households.²⁷ IEG learned from market analysts in Mexico that MBS expansion of housing credit has probably reached its limit given tight liquidity and averseness to investment in securities of any kind in current financial markets. This constraint figured in the preparation of the most recent Bank loan to SHF (Ln7614), that noted that foreign-owned banks in Mexico were receiving instructions from their headquarters not to invest in MBS (PAD p. 4).

in an amount of Mxp 18.1 billion. The average individual micro-credit was for Mxp 7,460 (US\$678), while the average mortgage loan was for Mxp 331,501 (US\$30,137). As well as requiring 40 times more funding to initiate the loan, mortgage lending ties up the funding at least fifteen times longer. This means that the same US\$30,000 funding for a 15 year mortgage loan could instead fund 600 one-year micro-credits of US\$750 each over a 15 year period.

²⁵ “Housing micro-finance (HMF) is not the “silver bullet” that will solve the challenge of universal access to homes and is not a suitable solution for large-scale non-subsidized, new home constructions, the provision of which remains the major challenge in many of the countries where housing micro-finance thrives. Policy makers should therefore not promote HMF as the primary solution for filling quantitative housing shortages. HMF is not a substitute for affordable long-term mortgages.” (Chiquier 2009 p. 415).

16. Since INFONAVIT held 16 of the 60 auctions launched in this period, the remaining 44 are assumed to be the responsibility of SHF/Sofoles (Fundación CIDOC 2009. p.124 and p.133).

17. The appraisal of Loan 7614 noted: “Securitized mortgage lending for low income households will wait until portfolios are accumulated and additional analysis on the associated risks is undertaken” (PAD p.14).

TABLE 5. MEXICO: AUCTIONS OF MORTGAGE BACKED SECURITIES 2004-2008

SHF (Sofoles) 'BORHIS'	2004	2005	2006	2007	2008	total (2004-2008)
Auctions (number)	na	na	na	na	na	44
Value of issue (billions of Mxp)	2.7	2.9	12.5	22.4	7.3	48.4
Value of issue (billions of US\$)	0.2	0.3	1.1	2.1	0.5	4.3
Share of SHF mortgage lending (%)	23.0	20.0	139.0	264.0	76.0	92.0
INFONAVIT 'CEDEVIS'	2004	2005	2006	2007	2008	total (2004-2008)
Auctions (number)	na	na	na	na	na	16
Value of issue (billions of Mxp)	2.0	3.3	6.0	10.2	6.6	28.1
Value of issue (billions of US\$)	0.2	0.3	0.6	1.3	0.5	2.8
Share of INFONAVIT mortgage lending (%)	3.4%	4.9%	7.7%	11.5%	6.1	7.0

Sources: Fundación CIDOC Note: * refers to first six months of 2008 only.

4.13 The DPLs identified few prior actions to strengthen savings for housing and to bring these too down-market. BANSEFI (Bank of National Saving and Financial Services – Banco de Ahorro Nacional y Servicios Financieros) created in 2001 to stimulate savings through savings plans, currently has Mxp6.3 billion of direct savings deposits that have grown at about 7 percent per annum in recent years (www.bansefi.gob.mx). Since other Bank group projects²⁸ have supported BANSEFI operations directly, it is difficult to attribute these results to the DPLs. In 2006, SHF sponsored the *Ahorro Voluntario* (voluntary savings) program on a small scale to encourage more savings that would enable workers to increase their pensions, but not necessarily to improve access to housing credit too (DPL ICR p. 23).

DPL URBAN DEVELOPMENT ACTIONS

4.14 **Improved urban development policy: (efficacy ratings: HUSAL-I, negligible; HUDPL-II, negligible; HUDPL-III, modest):** Results thus far are disappointing, with policymaking slow to incorporate sectoral reforms, and a growing dichotomy between housing policy on one hand and urban development policy on the other. A National Program for Urban Development, prepared by SEDESOL as part of Mexico's national planning system, that had been delayed under HUSAL-I and HUDPL-II, was finalized under HUDPL-III—hence the higher efficacy rating for this operation. But DPL documentation did not include performance indicators to measure progress in this area. It appears to have linked progress in urban policy with developments in the *Hábitat* upgrading program, a rather tenuous connection. Without a clear urban policy instrument, the limited DPL policy dialogue with SEDESOL, where Bank-Borrower communications were not always easy, could make little headway.

4.15 **Strengthening urban real property registries and rights. (efficacy ratings: HUSAL-I, substantial; HUDPL-II, substantial; HUDPL-III, substantial):** This expected outcome has been met today, through 18 of the most populous of Mexico's 32

²⁸. Operations to support BANSEFI include: Mexico: Savings and Credit Sector Strengthening and Rural Microfinance Capacity Building Project (P070108 FY02); Mexico Savings and Rural Finance (BANSEFI) Project Phase II (P087152 FY04); Mexico Savings and Rural Finance (BANSEFI) Additional Financing Project (P103491 FY07), as well as other operations financed by IFC.

states having modernized their property registries as recognized in successive DPL prior actions. The Bank deployed expertise through HUTAL supervision missions that was well received by SHF and CONAVI. CONAVI's active participation served to raise property registration modernization as a national issue beyond just a concern of individual states and municipalities. During its field visit to the state of Guanajuato, the IEG mission was able to verify at first hand the excellent performance of property registries there. Guanajuato's agreement with CONAVI under the umbrella of the DPLs brought valuable technical assistance. This enabled the state authorities to extend the service from just four municipalities in 2003 to all 23 municipalities across the entire state by 2006. The well organized production line that IEG witnessed during the mission's visit to the property registry of the municipality of Leon showed that the public was attended promptly and processing was accurate. Performance standards, such as the maximum time allowed to deal with a particular request, were strictly adhered to. Having set up one of the best systems in Mexico, the State of Guanajuato now provides technical support in this area to the States of Tabasco and Chiapas. Recently, the registries continue to strengthen by incorporating property tax collection into their work (Fundación CIDOC 2009). Although the DPLs provided no baseline data, the time taken to register a property in the 18 participating states continues to fall, from 16 days in 2006 to 7.9 days in 2008.

4.16 *Increasing supply of and access to urban land for poor people: (efficacy ratings: HUSAL-I, negligible; HUDPL-II, negligible; HUDPL-III, negligible):* IEG found little evidence of positive results in this area that could be attributed to DPL support. The reported additional land supply fell from 2,600 hectares in 2005 to 456 hectares in the first semester of 2008. In addition to the decline, the absolute amounts are small when compared with the 16,400 hectares per annum deemed necessary by the 2007- 2012 plan. While a cost:benefit study of urban land markets was a prior action, this did not translate into the land supply needed to accommodate an estimated 800,000 more people each year in Mexico's cities. Data on urban land supply, including for the baseline, were scarce. The DPLs' exclusive reliance on the *Habitat* program to deliver the increased land supply, proved unduly optimistic and realistic. Other mechanisms of urban and spatial planning and densification involving the public and private sectors were not contemplated.

4.17 *Coordinating and supporting investments in poor neighborhoods: (efficacy ratings: HUSAL-I, negligible; HUDPL-II, negligible; HUDPL-III, negligible):* IEG found no evidence of the DPLs helping to coordinate or support such investments that are indeed important ones for poverty reduction. The chosen actions, poverty mapping and community participation for some of SEDESOL's *Habitat* program had little impact upon the program itself. *Habitat* is one Mexico's principal anti-poverty efforts, driven by GOM investments of more than US\$1.0 billion between 2004 and 2006 alone, plus US\$0.5 billion of IADB funding. A quasi-experimental impact evaluation did find higher service levels for sanitation in *Habitat* ZAPs than in similar unimproved areas, but no significant difference for piped water and electricity (Campuzano 2007). Another recent evaluation noted that service deficits in ZAPs (i.e. baselines) were not always accurately analyzed. The evaluation recommended that the program needed to be strengthened through more community participation—precisely what the DPLs had considered as a key prior action (CONEVAL 2008 pp. 176-177). As *Habitat*'s principal unit of account is the ZAP, reliable information on the number of beneficiaries within each ZAP is scarce.

SEDESOL counts all residents of the ZAP as beneficiaries, a count that may include people who did not directly benefit from program action, as well as the non-poor living alongside the poor. DPL involvement in the *Habitat* program was limited and performance indicators proposed by the DPLs—the number of slums incorporating participatory methods of planning and investment—could not measure the intended result of achieving better coordination and greater efficiency.

4.18 *Increasing the capacity to prevent and manage the damage caused by natural disasters.* (efficacy ratings: HUSAL-I, negligible; HUDPL-II, negligible; HUDPL-III, modest): DPL achievements were limited in scope, especially for a large country like Mexico that is vulnerable to natural disasters of all kinds. Without specifying a particular type of development needing protection from natural disasters, the disaster mitigation objective should surely apply to all housing and urban development actions contemplated by the DPLs. To achieve an ambitious objective, it would also have to identify all necessary actions of disaster preparedness, ranging from early warning systems to land use controls, and from disaster resistant building codes to emergency responses. The DPLs were not equipped to address all areas of vulnerability in housing and urban development, nor the populations most at risk. Instead, they focused narrowly upon introducing disaster mitigation measures into the *Habitat* program only through introducing disaster risk mapping to 30 ZAPs. The chosen performance indicator, the number of cities adopting natural disaster risk atlases through *Habitat* rose from 38 in 2005 to 63 in 2008. But through this action identified by the DPLs, the Program achieved only a very partial result that has reached fewer than 10 percent of Mexico's 650 cities, nearly all of which are vulnerable to disasters.

HOUSING AFFORDABILITY AND URBAN POVERTY REDUCTION RESULTS

4.19 Evidence assembled for this evaluation does not point to the DPLs making housing assets more affordable and accessible to moderate income families, as intended. Housing and housing finance systems did not go down-market. These were major shortcomings for a program for which benefiting lower income families was a corner stone. The DPLs did not succeed for several reasons. First, their objectives were unduly ambitious in seeking to reform such a large and complex housing and urban development sector as Mexico's over a short period. Second, the DPLs did not read Mexico's sector priorities clearly when GOM placed increasing the supply of housing (for all income levels) as the first priority, ahead of helping the poor. Third, in using the ambiguous term "affordable", the DPLs did not make clear who precisely the intended beneficiaries, or what their income levels were. In hindsight, a more thorough analysis of housing demand across income groups in Mexico, and its shortfalls across the country might have better guided the design of these operations.

4.20 It is now more widely understood that the poor—making up the first two deciles of the income distribution in Mexico—cannot afford formal housing programs of the type offered through the SHF/Sofoles system sponsored by these DPLs. The DPL sponsored actions to support the urban poor were through the *Habitat* program. This was a good choice of program, but IEG could find only scant evidence that the prior actions sponsored by the DPLs, such as community participation and poverty mapping, made the program more efficient and better targeted as expected. With or without the DPLs, the

Hábitat went ahead, thanks to large GOM budget and significant financial support by the IADB. The stalling of the World Bank's dialogue with the ministry responsible, SEDESOL, challenged even the modest achievements that could have been expected. Evidence of the urban poverty benefits of the DPLs is thin and poorly documented. With its knowledge of poverty reduction worldwide, the Bank could have proposed methodologies for evaluating the impact of such programs, for instance. Excellent biannual data of household expenditure in Mexico could have been used to monitor the progress of poverty reduction at the level of each ZAP, for example. But without a productive working dialogue, the Bank was unable to bring its advice to the GOM table through these successive DPLs.

5. Ratings

5.1 The ratings that follow point to a positive outcome of the *FOVI Project* but substantial shortcomings of the *DPLs* when measured against the ambitious outcomes they set out to achieve. At the same time, IEG recognizes some progress made on different fronts in Mexico's housing and urban development sectors with the support of the Bank. But such progress pales when set against the far-reaching objectives originally formulated. As matters stand, the reported failure of these DPLs is the direct result of overly ambitious and unrealistic objectives, without a proper appraisal at the outset of the chances of achieving them.

OUTCOME AND RISK TO DEVELOPMENT OUTCOME²⁹

5.2 *FOVI Project*: Prior to project restructuring—with 38 percent of the loan disbursed—the substantially relevant objectives of institutional strengthening of the housing fund FOVI and mobilizing resources for social interest housing were modestly achieved, with two shortcomings: (i) the loss of some institutional results with the abolition of FOVI (originally the target of project technical assistance); and (ii) resources for housing other than social interest housing were mobilized more quickly and on a larger scale. After project restructuring—when 62 percent of the loan was disbursed—the project objectives became less relevant when they broadened project support to housing in general, thereby losing their focus on lower income beneficiaries. With SHF as the post-restructuring target, the relevant institutional objectives were substantially achieved. Taking the before and after restructuring performance together, overall relevance is rated

²⁹ For the DPLs, this IEG assessment gives equal weight to all eight objectives formulated for each operation. The ICR, on the other hand, gives most weight at closing to three objectives related to: (i) housing subsidies; (ii) access to credit; and (iii) property registry reform, reporting that these are “the most important in the eyes of stakeholders” (ICR p. 31). For evaluation purposes, a reassignment of weights like this is most convincing when made explicitly prior to the evaluation itself. When done, *ex post*, at a time when outcomes of each objective are already known, such an assignment could be misconstrued as downplaying failed objectives by assigning them zero weight in the overall assessment. For this evaluation, fulfilling prior actions itself is not a guarantee that the objectives have been achieved, especially when the relevance of the design is undermined by prior actions unrelated to the scale or scope of the intended outcomes set out by the objectives.

modest, efficacy substantial. Efficiency is likely to be modest, however, given the large disbursements made and limited results achieved prior to restructuring. The overall outcome of the project is therefore rated **moderately satisfactory**. Given the policy and market challenges to the housing finance model supported by the project, the risk to development outcome is rated as **significant**.

5.3 **HUSAL-I:** Only two of its intended outcomes were substantially achieved, namely strengthening mortgage lending while moving it down-market and strengthening property registries. Thus, the overall outcome rating for this operation is **moderately unsatisfactory**. With the later move away from housing affordable to moderate income families in Mexico, the risk to development outcome is rated **significant**.

5.4 **HUDPL-II:** The operation achieve only one of its intended outcomes substantially, the strengthening property registries. The overall outcome rating is therefore **unsatisfactory**. The risk to development outcome is **significant** particularly in view of the weakening demand for the type of housing finance supported by the operation.

5.5 **HUDPL-III:** Three of the eight intended outcomes were achieved. Again, the strongest achievement was with property registries. There was some recovery of mortgage lending, but no down-market trend. Overall, the outcome rating is **moderately unsatisfactory**. The risk to development outcome is **significant** given the weakening demand for the financial products supported by the operation.

BANK PERFORMANCE

5.6 **FOVI Project:** The design included appropriate components for achieving the operation's objectives. But clearly the Borrower was in the driver's seat, and the Bank in reactive mode when GOM suddenly abolished FOVI, the heart of the project design, in midstream implementation. Thus, for ensuring quality-at-entry, Bank performance in designing an operation to strengthen an agency that GOM didn't want at all was not fully satisfactory. Supervision was intense, costing US\$677,000 (similar to the costs of preparation and appraisal). With little achieved prior to the abolition of FOVI, Bank supervision slowly led to a restructuring that, in hindsight, could have retained the project's focus upon social interest housing for moderate income beneficiaries. Nevertheless, with the successor SHF in FOVI's place, Bank supervision became more effective, helping SHF develop strong mortgage origination procedures and assessments of client risks. Thus, supervision is rated moderately satisfactory. Overall, Bank performance is rated **moderately satisfactory**.

5.7 **HUSAL-I:** Preparation was protracted, as different directions were tried out over a period of several years before finally settling with the DPL series. The final HUSAL-I design covered too many tracks at once, leading to unrealistic and ambitious objectives out of touch with the large scale and complexities of Mexico's housing and urban development sector and GOM's own priorities for it. The operation also lacked a systematic means of M&E. Thus, the rating for ensuring quality-at-entry is unsatisfactory. This loan had very light supervision, although more would have allowed continued oversight of dynamic prior conditions (e.g. the harmonization of housing

agencies) to learn if they remained in force after approval. Thus supervision is rated moderately satisfactory. But overall, Bank performance is rated **unsatisfactory** giving due weight to preparation and appraisal, whose costs were nearly twenty times those of supervision.

5.8 **HUDPL-II:** While this operation still harbored its predecessor's many ambitious objectives, some small design improvements made a few objectives a little more realistic. The actions supporting the achievement of the objectives were, however, not clearly spelled out in the design. Thus, ensuring quality-at-entry is rated unsatisfactory. On similar grounds to HUSAL-I above, supervision is rated moderately satisfactory, but the resources devoted to supervision were not significant. Thus, overall, Bank performance is rated **unsatisfactory**.

5.9 **HUDPL-III:** The design of this operation was almost identical to that of its predecessor, with similar shortcomings. In repeating these, the Bank missed an opportunity to redesign the third DPL, making its objectives and scope more realistic. Thus, quality-at-entry is rated as unsatisfactory. As with HUSAL-I and HUDPL-II above supervision is rated moderately satisfactory but was a much smaller element of Bank activity than preparation and appraisal. Overall, Bank performance is therefore rated **unsatisfactory**.

BORROWER PERFORMANCE

5.10 **FOVI Project:** GOM's ownership of the project was strong at the outset. In one way, it surpassed its commitment to the operation's goal of restructuring FOVI when it decided to abolish the agency altogether and create a new development bank, SHF, in its place. On the other hand, GOM's shift away from social interest housing after the project was amended represents a weaker commitment to lower income housing beneficiaries. The counterpoint was clear GOM support to strengthening the new SHF. On balance, government performance was satisfactory. FOVI to a limited extent, and later SHF considerably, made significant improvements to managing the mortgage portfolio. Thus implementing agency performance was satisfactory. Overall, Borrower performance is rated **satisfactory**.

5.11 **HUSAL-I:** The government bought into the operation's aims through its policy commitment letter to the program as a whole. It was a good start to incorporating the program's aims into GOM's policy framework for housing and urban development. Government performance is therefore rated satisfactory. As the principal financial intermediary for the operation, SHF made significant progress in strengthening the management of its mortgage loan portfolio, especially in loan origination and securitization. Under this first DPL, SHF succeeded in bringing such lending down-market. Thus implementation agency performance is rated satisfactory. Overall, Borrower performance is rated **satisfactory**.

5.12 **HUDPL-II:** Although GOM's sector policy framework remained in place, and it pursued the reformulation of housing policy, its reticence towards major reforms in key areas such as housing subsidies was becoming more evident. At the same time, the urban development side of the operation began to lose GOM attention to the housing side. Thus the rating of government performance is unsatisfactory. While SHL continued to

strengthen and modernize its financial management, assuring its creditworthiness in the eyes of the market, it took its mortgage lending up-market, contrary to the program's intent. For these reasons, implementing agency performance is rated unsatisfactory. Overall, Borrower performance is rated **unsatisfactory**.

5.13 **HUDPL-III:** A new administration meant a GOM update of sector policy, the creation of a new CONAVI, and a commitment to expand housing provision. But little progress was made in important DPL policy areas, such as housing subsidies and in measureable actions of urban poverty reduction through the *Hábitat* program, upon which the dialogue with the Bank ground to a halt. Thus, Government performance is rated moderately satisfactory. Mortgage finance did not move down-market and DPL urban development actions failed to take off—areas of responsibility of the respective executing agencies. On balance, implementing agency performance is rated moderately unsatisfactory. Overall, Borrower performance is rated **moderately unsatisfactory**.

6. Lessons

6.1 The expected outcomes and scope of an operation should be subject to several reality checks at appraisal. An important one is to ensure that essential partners—such as INFONAVIT in this case—are fully on board and committed to the operation. If they are not, or cannot be engaged for reasons of political economy, then an operation's scope should be contained to cover more modest outcomes that can reasonably be obtained without such partners.

6.2 In large and sophisticated middle-income countries like Mexico, an operation should avoid promising sector-wide reforms when commensurate results cannot be realistically achieved in the short timeframe and with the relatively modest scale of assistance offered.

6.3 Housing finance through mortgage lending encounters an affordability floor. Experience in Mexico shows that poorer households below the 40th percentile of the income distribution cannot afford the cheapest formal housing unit through a market-based mortgage loan without a subsidy. An affordability floor like this will vary from country to country depending upon household income levels, house prices and interest rates.

6.4 Operations aiming to support affordable housing and urban poverty reduction need to be explicit about their target beneficiary populations, with quantification of baselines and targets, and at completion, achievements.

6.5 Contrary to down-market aims, establishing a sound reputation in financial markets and sustaining a high quality and expanding portfolio can lead a new mortgage financier up-market, by targeting higher income borrowers with larger loans. Markets perceive such loans as less risky. They are also less costly to manage and contribute more to business growth.

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Annex A. Basic Data Sheet

FOVI RESTRUCTURING PROJECT (LOAN 4443-MX)

Key Project Data (amounts in US\$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	7310.1	7310.1	100.0
Loan amount	505.1	505.1	100.0
Cofinancing	2436.3	2417.7	99.2
Cancellation	-	0.0	0

Cumulative Estimated and Actual Disbursements

	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Appraisal estimate (US\$M)	105.0	255.0	405.0	495.0	505.0	505.0	505.0
Actual (US\$M)	0.0	38.0	188.0	188.0	316.5	319.1	503.5
Actual as % of appraisal	0%	15%	46%	38%	63%	63%	100%

Date of final disbursement: June 22, 2005

Project Dates

	Original	Actual
Appraisal	12/19/1997	12/19/1997
Board approval	03/04/1999	03/04/1999
Signing	05/11/1999	05/11/1999
Effectiveness	03/31/1999	01/11/2000
Closing date	06/30/2003	06/30/2005

Staff Inputs (staff weeks)

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff Weeks	US\$ ('000)
Identification/Preparation	122	452
Appraisal/Negotiation	77	256
Supervision	105	677
ICR	7	29
Total	311	1,411

Mission Data

Stage of Project Cycle <i>Month/Year</i>	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
	Count	Specialty	Implementation Progress	Development Objective
Identification/ Preparation 09/1996	7	Task Manager (1); Housing Finance Specialist (1); Financial Analyst (1); Resource Management Analyst (1); Consultants (3)		
Appraisal/Negotiation 12/19/1997	7	Task Manager (1); Housing Finance Specialist (2); Financial Officer (1); Consultant (4)		
03/02/1998	5	Task Manager (1); Housing Finance Specialist (1); Consultants (3)		
01/19/1999	3	Task Manager (1); Lawyer (1); Consultant (1)		
Supervision 05/16/2000	6	Task Manager (1); Housing Finance (2); Project Officer (1); Financial Economist (1); Team Assistant (1)	U	U
11/2000	5		U	U
06/29/2001	5	(*)	U	S
12/10/2001	2	(*)	S	S
05/23/2002	-	(*)	S	
11/25/2002	2	(*)	S	S
05/28/2003	-	(*)	S	S
03/31/2004	4	Team Leader (1); Lead Financial Officer (1); Sr. Housing Finance Sp. (1)	HS	HS
01/13/2004	-	(*)	S	S
ICR 10/14/2005	2	Team Leader (1); Consultant (1)		

(*) Supervision undertaken from Mexico, dates refer to Project Status Reports archived.

*The Bank's Business Warehouse lists 17 missions. The ICR lists only 13 missions.

**HUSAL-I: AFFORDABLE HOUSING AND URBAN POVERTY SECTOR
ADJUSTMENT LOAN (LOAN 7229-MX)**

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	100.0	99.5	99.5
Loan amount	100.0	99.5	99.5
Cofinancing	-	-	-
Cancellation	-	0.5	-

Cumulative Estimated and Actual Disbursements

	<i>FY05</i>
Appraisal estimate (US\$M)	100.0
Actual (US\$M)	99.5
Actual as % of appraisal	99.5%
Date of final disbursement: December 22, 2004	

Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal	02/16/2004	02/17/2004
Board approval	06/08/2004	06/08/2004
Signing	10/01/2004	10/01/2004
Effectiveness	12/17/2004	12/17/2004
Closing date	12/31/2004	12/31/2004

Staff Inputs (staff weeks)

	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>Total</i>
Preappraisal	11	19	13	45	-	-	88
Appraisal	-	-	-	-	41	-	41
Negotiations	-	-	-	-	-	2	2
Supervision	-	-	-	-	-	12	12
Other	-	-	-	-	-	-	-
Total	11	19	13	45	41	14	143

**HUDPL-II SECOND AFFORDABLE HOUSING AND URBAN POVERTY
REDUCTION DEVELOPMENT POLICY LOAN (LOAN 7340-MX)**

Key Project Data *(amounts in US\$ million)*

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	200.5	200.5	100.0
Loan amount	200.5	200.5	100.0
Cofinancing	-	-	-
Cancellation	-	-	-

Cumulative Estimated and Actual Disbursements

	<i>FY06</i>
Appraisal estimate (US\$M)	200.5
Actual (US\$M)	200.5
Actual as % of appraisal	100%
Date of final disbursement: December 21, 2005	

Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal	07/14/2005	07/14/2005
Board approval	07/25/2005	07/25/2005
Signing	11/29/2005	11/29/2005
Effectiveness	12/16/2005	12/16/2005
Closing date	12/21/2005	12/21/2005

Staff Inputs *(staff weeks)*

	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>Total</i>
Preappraisal	13	-	-	-	13
Appraisal	-	26	-	-	26
Negotiations	-	-	-	-	-
Supervision	-	1	2	1	4
Other	-	-	-	-	-
Total	13	27	2	1	43

**HUDPL-III THIRD AFFORDABLE HOUSING AND URBAN POVERTY
REDUCTION DEVELOPMENT POLICY LOAN (LOAN 7491-MX)**

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	200.5	200.5	100.0
Loan amount	200.5	200.5	100.0
Cofinancing	-	-	-
Cancellation	-	-	-

Cumulative Estimated and Actual Disbursements

	<i>FY08</i>
Appraisal estimate (US\$M)	200.5
Actual (US\$M)	200.2
Actual as % of appraisal	100.0
Date of final disbursement: December 20, 2007	

Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal	10/04/2007	10/04/2007
Board approval	11/27/2007	11/27/2007
Signing	11/28/2007	11/28/2007
Effectiveness	12/04/2007	12/04/2007
Closing date	06/30/2008	06/30/2008

Staff Inputs (staff weeks)

	<i>FY07</i>	<i>FY08</i>	<i>Total</i>
Preappraisal	18	-	18
Appraisal	-	17	17
Negotiations	-	-	-
Supervision	-	4	4
Other	-	-	-
Total	18	21	39

Annex B. Policy Matrices of DPLs

A. HUSAL-I MATRIX OF OBJECTIVES, PRIOR ACTIONS, TECHNICAL ASSISTANCE AND OUTCOMES Mexico Affordable Housing and Urban Poverty Programmatic Sector Adjustment Loan (Loan 7229-MX)

HUSAL-I: PRIOR ACTIONS FIRST ADJUSTMENT LOAN MAY 2004	HUSAL-I: INDICATIVE ACTIONS FOR DPL-II (TENTATIVE AUGUST 2005) (KEY PRIOR ACTIONS IN BOLD)	HUSAL-I: INDICATIVE ACTIONS FOR DPL-III (TENTATIVE AUGUST 2006) (KEY PRIOR ACTIONS IN BOLD)	HUSAL-I: TECHNICAL ASSISTANCE (TA) LOAN	HUSAL-I: PROGRAM OUTCOMES	HUSAL-I: REG COMMENT ON RESULTS
I. MACROECONOMIC FRAMEWORK					
Maintenance of sound macroeconomic framework consistent with policy objectives and programs described in the Letter of Development Policy.	Maintenance of sound macroeconomic framework consistent with policy objectives and programs described in the Letter of Development Policy.	Maintenance of sound macroeconomic framework consistent with policy objectives and programs described in the Letter of Development Policy.		Macro-economic stability supports achievement of program objectives	Good results were obtained by GOM, but not as a consequence of the operation.
II. NATIONAL HOUSING POLICY AND INSTITUTIONAL FRAMEWORK (Objective: to develop a sound national policy and institutional framework for housing and urban development)					
<p>The Government has approved and presented the National Housing Development Policy, strengthened transparency through presentation of annual report on policy implementation and provision of information on related programs to the public through the internet.</p> <p>The Government has harmonized and defined the roles of federal housing agencies: CONAFOVI is the overall coordinator and policy body; CONAVI serves as a consultative forum for public and private stakeholders; SHF takes the lead in developing market-rate primary and secondary mortgage markets; FONHAPO is in charge of housing subsidies; FONAEVI receives, accounts for, and disburses housing subsidy funds.</p> <p>Government has completed an environmental assessment (EA) of the housing sector.</p>	<p>CONAFOVI has continued to provide to the general public information on housing policy implementation and program evaluation.</p> <p>Institutional alignment moves to the state level through the establishment of at least 25 state Housing Councils.</p> <p>The Government has prepared and is implementing an action plan for housing sector environmental reforms as part of the SEA process.</p>	<p>All 32 states have created State Housing Councils.</p> <p>Fonhapo's activities focused on loan recuperation and housing subsidy management, and second tier lending eliminated.</p> <p>Develop a strategy for transforming INFONAVIT and reconciling conflicting social objectives (pension fund, housing credit provider and social housing agency).</p> <p>Satisfactory implementation of the SEA by the Government.</p>	<p>Evaluation of housing programs</p> <p>National program of institutional strengthening of states and municipalities on low income housing</p> <p>Support for housing information system</p> <p>Analysis of costs and benefits of changed strategy/role for INFONAVIT</p> <p>Housing Sector SEA</p>	<p>National housing policy established, along with supporting institutional framework in order to reach overall goal of producing 750,000 new housing solutions per year by 2006</p> <p>States and localities increasingly subsidize housing through grants rather than below-market-rate loans</p> <p>Strategy document developed for rationalization of role of INFONAVIT.</p>	<p>Under Mexico's national development planning system, HUSAL-I helped lay the groundwork for preparing the national housing program.</p> <p>No major policy or institutional changes under HUSAL-I.</p> <p>SHF management of mortgage portfolio strengthened.</p> <p>INFONAVIT was not party to HUSAL-I, nor were states and localities.</p>

HUSAL-I: PRIOR ACTIONS FIRST ADJUSTMENT LOAN MAY 2004	HUSAL-II: INDICATIVE ACTIONS FOR DPL-II TENTATIVE AUGUST 2005 (KEY PRIOR ACTIONS IN BOLD)	HUSAL-III: INDICATIVE ACTIONS FOR DPL-III TENTATIVE AUGUST 2006 (KEY PRIOR ACTIONS IN BOLD)	HUSAL-IV: TECHNICAL ASSISTANCE (TIA) LOAN	HUSAL-V: PROGRAM OUTCOMES	HUSAL-VI: IEG COMMENT ON RESULTS
<p>III. HOUSING SUBSIDIES (Objective: to design and put in place a consistent and unified housing subsidy policy that facilitates access of low/moderate income families to housing and leverages household savings and private credit finance)</p>					
<p>The Government has mandated a unified housing subsidy program to be administered by FONHAPO/FONAEVI that is efficient, progressive, and equitable as established through presidential decree.</p> <p>CONAFOVI has set up an on-going working group that includes all main agencies involved in housing subsidy and/or administration at the national level in order to consolidate objectives and programs for the unified housing subsidy program and its continuous refinement.</p> <p>FONHAPO has established a database of beneficiaries of Tu Casa/Vivah.</p>	<p>Government has completed an evaluation of federal housing subsidy programs taking into account land and infrastructure subsidies delivered at the local level to federally assisted housing projects, and the results are reflected in the subsidy programs designed for 2005.</p> <p>FONHAPO has incorporated the beneficiaries PROSAVI, INFONAVIT, and FOVISSSTE into the unified housing beneficiary database.</p>	<p>Government has designed – as reflected in the approved 2006 budget – a unified subsidy system across federal subsidy programs that: (a) improves equity, progressivity, and increased beneficiary contributions across programs; (b) does not allow joining subsidies from a variety of federal programs (“double dipping”) thereby resulting in a total amount of subvention 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; and e) increases portability of subsidies.</p> <p>The Government has approved and publicly disseminated the procedures for subsidy application, prioritization or rationing criteria including the role of savings and the approval and selection process.</p> <p>The unified beneficiary database has the capability of: (a) ensuring that a new applicant for a housing subsidy has received no prior housing subsidy; and (b) producing reports of housing subsidy beneficiaries within and among states.</p>	<p>Coordinated evaluation of federal housing subsidy programs</p> <p>Support to the housing subsidy working group and for the design and implementation of unified subsidy system.</p> <p>Study to develop a method for calculation of the present value of selected INFONAVIT interest-rate subsidy packages.</p> <p>Support for capacity building of FONHAPO/FONAEVI</p>	<p><i>Federal housing subsidies unified</i></p> <p>Greater equity, efficiency, fiscal sustainability, & leveraging of credit and household savings demonstrated by federal housing system</p> <p>Beneficiary selection system widely used by housing agencies to register and screen subsidy applicants</p>	<p>Subsidy programs still not unified and inefficient interest rate subsidies, by far the most important and growing, remain untouched by reform.</p> <p>Evidence that up-front subsidies have benefited low-income families is incomplete.</p>

HUSAL-I: PRIOR ACTIONS FIRST ADJUSTMENT LOAN MAY 2004	HUSAL-I: INDICATIVE ACTIONS FOR DPL-II TENTATIVE AUGUST 2005 (KEY PRIOR ACTIONS IN BOLD)	HUSAL-I: INDICATIVE ACTIONS FOR DPL-III TENTATIVE AUGUST 2006 (KEY PRIOR ACTIONS IN BOLD)	HUSAL-I: TECHNICAL ASSISTANCE (TA) LOAN	HUSAL-I: PROGRAM OUTCOMES	HUSAL-I: REG COMMENT ON RESULTS
<p>IV. HOUSING CREDIT AND HOUSEHOLD SAVINGS (Objective: to strengthen the housing credit and savings systems, and move these systems down-market)</p>					
<p>Congress has approved a set of reforms that strengthen the legal framework at the national level for mortgages (<i>credito hipotecario</i>), allowing adjudication of defaulted mortgage liens in federal courts, simplifying documentation required to prove the existence of the lien, and allowing for extra-judicial foreclosure of collateral trusts.</p>	<p>SHF has issued appraisal norms for its own housing finance operation and has created a minimum standard for a master insurance policy.</p> <p>All new peso and UDI denominated housing loans are incorporated into the Database for credit risk.</p>	<p>2005 funding agreements for federal housing support to states (CODEVISU) reflect effective mortgage foreclosure.</p> <p>SHF has issued disclosure rules for the cost of home-improvement loans and refinancing of mortgage loans.</p>	<p>Mortgage foreclosure awareness program</p> <p>Home counseling study/program on mortgage lending for potential borrowers.</p> <p>Software engineering and hardware support for SHF to hasten the development and distribution of the credit database.</p>	<p>Greater funding, lending, affordability and down-market penetration demonstrated by the housing finance system</p> <p>Differences in effective interest rates among mortgage lenders decrease</p> <p>Loans increasingly accompanied by home counseling</p> <p>Housing and mortgage risk data used by private-sector moderate-income households to home credit for low-cost housing solutions</p> <p>Greater share of low-moderate-income families enrolled in formal-sector savings programs or with savings accounts</p>	<p>In the first year of the program under HUSAL-I SHL succeeded in both increasing new lending and also moving it down-market.</p> <p>SHF consolidated databases for a more complete coverage of the creditworthiness of potential mortgage borrowers.</p> <p>But little evidence is available on the share of low and moderate income families in savings programs.</p>
<p>Congress has approved a new financial transparency law related to mortgage loans, providing standardized, clear and comparative information and contracts to borrowers. SHF has issued rules for the licensing of property appraisers, and the calculation of costs disclosed for residential mortgage loans.</p> <p>SHF has designed and put in place a database for credit risk assessment, and private sector is contributing information on loans.</p> <p>SHF has expanded its products to include financing and guarantees both in UDI and peso.</p> <p>Bansfei has launched savings programs for low- and moderate-income households linked to lending by Infonavit and Fonhapo's Tu Casa program.</p>	<p>SHF has completed an improved master plan for the Database that is endorsed by the private sector and envisages the private sector's active participation.</p> <p>SHF has designed and put in practice pilot projects, for financing home improvement, additions, and purchase of existing housing, in accordance with standards agreed between the GOM and the Bank.</p> <p>Bansfei savings programs have added a total of 3,000 low and moderate-income clients over the last year for the INFONAVIT, SHF, and Fonhapo Tu Casa programs.</p>	<p>2005 funding agreements for federal housing support to states (CODEVISU) reflect effective mortgage foreclosure.</p> <p>SHF has issued disclosure rules for the cost of home-improvement loans and refinancing of mortgage loans.</p> <p>Actions have been initiated to clean and incorporate historic data into the Database on UDI-denominated loans</p> <p>Information contained in the database for credit risk could be available to the private sector.</p> <p>SHF mainstreams financing of home improvement, addition and purchase of existing housing, in accordance with standards agreed between the GOM and the Bank.</p> <p>Bansfei programs have added 4,000 new low and moderate-income clients over the last year to the INFONAVIT, SHF, and Fonhapo Tu Casa program.</p> <p>Study completed for new legal and regulatory framework for issuance and investment in mortgage related securities by credit institutions.</p>	<p>Studies of: (a) the role of Cajas de Ahorro y Prestamo and other lenders in low/moderate-income housing finance, and the potential of Bansfei as a source of long-term funding; (b) the feasibility of SHF issuing retail bonds to low and moderate income savers, with proceeds funding home credit to this income group; (c) of demand for financial products by immigrants and the use of remittance flows.</p> <p>Development of norms for SOFOLIS.</p>	<p>Support for modernization of property registries in additional states.</p> <p>Studies for consensus on legal framework for property rights.</p>	<p>The chosen indicator reflects only the speed of processing, not necessarily the strength of the systems.</p> <p>Bur system was expanded to two states.</p>
<p>V. URBAN PROPERTY REGISTRIES AND RIGHTS (to strengthen urban real property registries and rights)</p>					
<p>Two state governments have started to implement property registry modernization programs with support from CONAFOVI.</p>	<p>Five additional state governments have implemented property registry modernization programs, in a manner agreed between the GOM and the Bank.</p>	<p>All states have adopted new property registry programs.</p> <p>Federal and state government have reached consensus on the principles, path to reform, and operation of a property-rights system, as expressed in an official property-rights modernization strategy.</p>	<p>Support for modernization of property registries in additional states.</p> <p>Studies for consensus on legal framework for property rights.</p>	<p>Time required to register a mortgage item in pilot states reduced substantially</p>	<p>The chosen indicator reflects only the speed of processing, not necessarily the strength of the systems.</p> <p>Bur system was expanded to two states.</p>

HUSAL-E: PRIOR ACTIONS FIRST ADJUSTMENT LOAN MAY 2004	HUSAL-F: INDICATIVE ACTIONS FOR DPL-II TENTATIVE AUGUST 2005 (KEY PRIOR ACTIONS IN BOLD)	HUSAL-G: INDICATIVE ACTIONS FOR DPL-III TENTATIVE AUGUST 2006 (KEY PRIOR ACTIONS IN BOLD)	HUSAL-I: TECHNICAL ASSISTANCE (TA) LOAN	HUSAL-J: PROGRAM OUTCOMES	HUSAL-L: REG COMMENT ON RESULTS
<p>VI. NATIONAL URBAN POLICY, SLUM UPGRADING AND INSTITUTIONAL STRENGTHENING (Objective: to coordinate physical and social investments to systematically upgrade poor neighborhoods)</p>					
<p>Government has approved and presented the National Urban Development and Territorial Planning Policy and strengthened transparency through presentation of an annual report on policy implementation and provision of information on related programs to the public through the internet.</p> <p>SEDESOL Poverty mapping has been completed and used for targeting social programs (Habitat, Oportunidades, Liconsa).</p> <p>SEDESOL has integrated its physical and social interventions in urban communities under a single umbrella slum-upgrading program (Habitat), as approved and funded by Congress.</p> <p>Government has modified its regulations to expand its major social program (Oportunidades) from a rural focus to include urban areas, reflecting the growing levels of urban poverty.</p> <p>Government has completed an environmental assessment (EA) of the urban sector</p>	<p>SEDESOL continues to increase and improve the information available to the public on urban development and territorial planning policy.</p> <p>SEDESOL Poverty mapping made available and training provided to local governments and communities on its incorporation into municipal priority setting for investments and programs.</p> <p>SEDESOL has strengthened Habitat through participatory planning, coordination, and sequencing of investments.</p> <p>At least 45 of municipal governments establish urban planning agencies.</p> <p>The Government has prepared and is implementing an action plan for urban sector environmental reforms at the federal level, in accordance with procedures and standards agreed between the GOM and the Bank.</p>	<p>Trained municipalities have incorporated poverty mapping into municipal priority setting for investments and programs.</p> <p>80 additional municipal governments establish urban planning agencies.</p> <p>Satisfactory implementation of the Environment Action Plan by the Government</p>	<p>Poverty mapping dissemination and training for states, municipalities and communities.</p> <p>Competitiveness program for Development Agencies in fast growing urban areas.</p>	<p><i>National urban policy established, along with supporting institutional framework.</i></p> <p><i>Increased efficiency of slum upgrading under Habitat as measured by greater community participation & investment planning, and improved sequencing of investment.</i></p>	<p>Community participation is not a good indicator coordinating investments to upgrade poor areas.</p> <p>There is no evidence of HUSAL-I helping to coordinate investments in upgrading slum areas. GOM's main program for this, <i>Habitat</i>, went ahead without any significant connection with HUSAL-I</p>
<p>VII. LOW AND MODERATE INCOME LAND DEVELOPMENT (Objective: to increase the supply of urban land and access by the poor and improve this market's function)</p>					
<p>SEDESOL has completed a full assessment of state and municipal land regulations in two regions to rationalize and simplify the land development process (States of Baja California, Baja California Sur, Chihuahua, Coahuila, Durango, Nuevo Leon, Sinaloa, Sonora and Tamaulipas).</p> <p>SEDESOL has finished studies that: (a) inventory developable urban land; and (b) analyze the legal and financial options for residential land development.</p>	<p>Government has completed a quantitative analysis of the costs and benefits of different modes of low/moderate-income land development, and developed an action plan that facilitates low/moderate-income residential land development.</p>	<p>Satisfactory implementation of a pilot program that facilitates low/moderate-income residential land development.</p>	<p>Evaluation of and proposals for the urban land inventory.</p> <p>Study quantifying the costs and benefits of irregular and regular land use.</p> <p>Study on new instruments and action plan for low/moderate-income land development.</p>	<p><i>Costs and time required for land development reduced.</i></p> <p><i>Increased scale of and private-sector involvement in low/moderate-income land development</i></p>	<p>There is no evidence that the costs and time needed for urban land development have been reduced.</p> <p>Similarly, there is no data showing a greater involvement in urban land supply.</p>
<p>VIII. NATURAL DISASTER PREVENTION AND MANAGEMENT (Objective: to better prevent and manage the impacts of natural disasters)</p>					
<p>SEDESOL has carried out at least 30 community-level risk analyses under its HABITAT program.</p> <p>SEDESOL has carried out at least 15 sensitization and mitigation projects under its HABITAT program.</p> <p>SEDESOL has put forward at least 10 proposals to</p>	<p>SEDESOL continues its work on community disaster mitigation through risk analysis, sensitization programs and mitigation works in interested cities participating in the HABITAT program</p> <p>SEDESOL finalizes methodology for developing "risk atlases" at the city level.</p>	<p>SEDESOL continues its work on community disaster mitigation through risk analysis, sensitization programs and mitigation works in interested cities participating in the HABITAT program</p> <p>SEDESOL has promoted the elaboration of risk atlases for/with 30 additional cities.</p>	<p>Review of the methodology to elaborate Risk Atlases</p> <p>Training for local authorities in risk prevention</p>	<p><i>Vulnerability to natural disaster events is reduced significantly in Mexico's major cities</i></p>	<p>The few program actions linked to this were through the <i>Habitat</i> program.</p> <p>The scope of these actions was very limited, and there is no</p>

HUSAL-I: PRIOR ACTIONS FIRST ADJUSTMENT LOAN MAY 2004	HUSAL-I: INDICATIVE ACTIONS FOR DPI-II TENTATIVE AUGUST 2005 (KEY PRIOR ACTIONS IN BOLD)	HUSAL-I: INDICATIVE ACTIONS FOR DPI-III TENTATIVE AUGUST 2006 (KEY PRIOR ACTIONS IN BOLD)	HUSAL-I: TECHNICAL ASSISTANCE (TA) LOAN	HUSAL-I: PROGRAM OUTCOMES	HUSAL-I: IEG COMMENT ON RESULTS
organize land use in order to prevent natural disasters.	SEDESOL has promoted the elaboration of risk atlases for/with 30 cities. Inter-ministerial group formed to increase emphasis on disaster prevention and mitigation in Government policy and programs.				evidence that it reduced the vulnerability of Mexico's major cities to natural disasters.

Source: HUSAL-I Program Document Loan and Program Summary p. vi, pp. 18-21 and Annex 1

B. HUDPL-II MATRIX OF POLICY ACTIONS, EXPECTED OUTCOMES AND INDICATORS
Second Mexico Affordable Housing and Urban Poverty Development Policy Loan (Loan 7340-MX)

HUDPL-II: KEY PRIOR ACTIONS FOR APPROVAL OF FIRST LOAN APRIL 2004	HUDPL-II: ACTIONS FOR BOARD APPROVAL OF DPL-II TENTATIVE DECEMBER 2005	HUDPL-II: INDICATIVE TRIGGERS FOR DPL-III TENTATIVE AUGUST 2007	HUDPL-II: KEY COMPLEMENTARY ACTIVITIES OF TA LOAN	HUDPL-II: EXPECTED OUTCOMES AND MONITORING INDICATORS	HUDPL-II: IEG COMMENT ON RESULTS
I. MACROECONOMIC FRAMEWORK					
Maintenance of sound macroeconomic framework consistent with policy objectives and programs described in the Letter of Development Policy.	Maintenance of sound macroeconomic framework consistent with policy objectives and programs described in the Letter of Development Policy.	Maintenance of sound macroeconomic framework consistent with policy objectives and programs described in the Letter of Development Policy.		<p><i>Outcome:</i> Macro-economic stability supports achievement of program objectives</p>	<p>Good results were obtained by GOM, but not as a consequence of the operation.</p>
II. NATIONAL HOUSING POLICY AND INSTITUTIONAL FRAMEWORK (Objective: to support GOM's efforts to improve national policies and institutions for housing and urban development)					
Approval of the National Housing Development Policy and setting up of CONAFOVI as the overall coordinator for housing policy.			<p>Evaluation of housing programs Support for housing information system</p>	<p><i>Outcome:</i> National Housing policy established, along with supporting institutional framework in order to reach overall goal of producing 750,000 new housing solutions per year by 2006.</p> <p><i>Indicator:</i> a) Number of housing solutions for households earning 5 MW or less b) Ratio of number of housing solutions for households earning 5 MW or less to total housing solutions</p>	<p>2007-2012 national housing program approved.</p> <p>Approval of 2006 <i>Ley de Vivienda</i>, that included the creation of CONAVI as housing sector coordination body reporting to the Presidency.</p> <p>But institutional framework fragmented across several agencies.</p> <p>HUDPL-II indicators do not measure policy and institutional achievements.</p>
III. HOUSING SUBSIDIES (Objective: to make the federal housing system more efficient by designing and implementing a unified system of subsidies to facilitate access to housing by low and moderate income families.)					
The Government has mandated a unified housing subsidy program to be administered by FONHAPO/FONAEVI that is efficient, progressive and equitable as established through presidential decree.	Government has completed an evaluation of federal housing subsidy programs taking into account land and infrastructure subsidies delivered at the local level to federally assisted housing projects, and the results are reflected in the subsidy programs designed for 2006.	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 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	<p>Comprehensive evaluation of federal housing subsidy programs. Support to the housing subsidy working group and for the design and implementation of unified subsidy system. Study to develop a method for</p>	<p><i>Outcome:</i> Federal housing subsidies unified: The amounts of the housing subsidies across programs and income segment is harmonized and package of programs fulfill all main subsidy policy objectives.</p>	<p>Subsidy programs still not efficient and inefficient interest rate subsidies, by far the most important and growing, remain untouched by reform.</p> <p>Evidence that up-front subsidies have benefited low-income</p>

<p>HUDPL-II: KEY PRIOR ACTIONS FOR APPROVAL OF FIRST LOAN APRIL 2004</p>	<p>HUDPL-II: ACTIONS FOR BOARD APPROVAL OF DPL-II TENTATIVE DECEMBER 2005</p>	<p>HUDPL-II: INDICATIVE TRIGGERS FOR DPL-III TENTATIVE AUGUST 2007</p>	<p>HUDPL-II: KEY COMPLEMENTARY ACTIVITIES OF TA LOAN</p>	<p>HUDPL-II: EXPECTED OUTCOMES AND MONITORING INDICATORS</p>	<p>HUDPL-II: IEG COMMENT ON RESULTS</p>
		<p>the subsidy amount by income group and region; and e) increases portability of subsidies.</p>	<p>calculation of the present value of INFONAVIT and FOVISSSTE subsidy packages. Support for capacity building of FONHIAPO/ FONAEVI</p>	<p>Greater clarity of objectives, transparency, improved targeting and beneficiary selection systems, equity, and avoidance of negative market effects. <i>Indicators:</i> a) Total amount of subsidies of all the programs to the population of less than 3MW/and non-formally employed b) Average subsidy amount per household across income segments by program c) Number of beneficiaries who receive more than one subsidy from ONAVIS d) Ratio of upfront grants and interest-buy-downs to total implicit interest rate subsidies</p>	<p>families is incomplete. Monitoring indicators were appropriate, but there was little data available for measurement.</p>
<p>IV. HOUSING CREDIT AND HOUSEHOLD SAVINGS (Objective: to bolster systems for housing loans and savings and move them down-market.)</p>					
<p>Congress has approved a set of reforms that strengthen the legal framework at the national level for mortgages (<i>credito hipotecario</i>), allowing adjudication of defaulted mortgage liens in federal courts, simplifying documentation required to prove the existence of the lien, and allowing for extra-judicial foreclosure of collateral trusts. Congress has approved a new financial transparency law related to mortgage loans, providing standardized, clear and comparative information and contracts to borrowers. SHF has issued rules for the licensing of property appraisers, and the calculation of costs disclosed for residential mortgage loans.</p>	<p>SHF has designed and implemented a pilot project to finance housing improvements and expansions, in accordance with standards agreed between the GOM and the World Bank.</p>	<p>SHF mainstreams financing of home improvement, addition and purchase of existing housing, in accordance with standards agreed between the GOM and the World Bank.</p>	<p>Studies or support program for potential borrowers with regard to mortgage financing Software and hardware support for SHF to accelerate development and the distribution of the credit database Development of norms for SOFOLES.</p>	<p><i>Outcome:</i> More loans, greater funding, availability and penetration at market lower levels demonstrated by the housing financial system <i>Indicators:</i> a) Amount of mortgage financing of the private sector [Banks and SOFOLES] to the segment of the income population between 3 and 8 MW b) Amount of the housing micro-finance by SHF to households</p>	<p>SHF mortgage lending began to shrink and headed up-market. Smaller, more affordable loans fell as a share of the total. The value of central registers of creditworthiness was diminished as autonomous Sofoles failed to report their full housing loan portfolios.</p>

HUDPL-II: KEY PRIOR ACTIONS FOR APPROVAL OF FIRST LOAN - APRIL 2004	HUDPL-II: ACTIONS FOR BOARD APPROVAL OF DPL-III - TENTATIVE DECEMBER 2005	HUDPL-III: INDICATIVE TRIGGERS FOR DPL-III - TENTATIVE AUGUST 2007	HUDPL-II: KEY COMPLEMENTARY ACTIVITIES OF TA LOAN	HUDPL-II: EXPECTED OUTCOMES AND MONITORING INDICATORS	HUDPL-II: IEG COMMENTARY RESULTS
				with incomes up to 5 MW c) Financial sustainability measured by total internally generated income / total expenses + imputed cost of capital.	
V. URBAN PROPERTY REGISTRIES AND RIGHTS (Objective: to strengthen urban real property registries and rights.)					
Two state governments have started to implement property registry modernization programs with support from CONAPOVI.	Five more state governments have implemented programs for modernization of its Property registries, according to agreed guidelines between the GOM and the World Bank	The property registry program is expanded to covers at least 18 states which cover at least 80 percent of the urban population (potential users).	Support for modernization of property registries in five states.	<p><u>Outcome:</u> Time required to register a mortgage lien in pilot states reduced substantially</p> <p><u>Indicator:</u> Time required to register a property in the States with property registries modernization programs.</p>	The chosen indicator reflects only the speed of processing, not necessarily the strength of the systems. Bur system was further expanded to five more states as planned.
VI. NATIONAL URBAN POLICY, SLUM UPGRADING AND INSTITUTIONAL STRENGTHENING (Objective: to coordinate and support physical and social investments in poor neighborhoods.)					
The Government has approved and presented the National Urban Development and Territorial Planning Policy and strengthened transparency through presentation of an annual report on policy implementation and provision of information on related programs to the public through the internet. SEDESOL Poverty mapping has been completed and used for targeting social programs (Habitat, Oportunidades, Liconsa).	SEDESOL has strengthened Habitat through participatory planning, coordination, and sequencing of investments.		Design and dissemination of the methodology and the technological platform for the use and utilization of the information on Poverty Maps	<p><u>Outcome:</u> Increased efficiency of slum upgrading under Habitat as measured by greater community participation & investment planning, and improved sequencing of investment.</p> <p><u>Indicator:</u> a) Number of slums that have prepared or updated their self-diagnosis under Habitat. b) Number of slums that have prepared participatory planning based on their self-diagnosis. c) Number of social auditing processes</p>	Community participation is not a good indicator coordinating investments to upgrade poor areas. The number of slums affected was small. There is no evidence of HUSAL-1 helping to coordinate investments in upgrading slum areas. GOM's main program for this, <i>Habitat</i> , went ahead without any significant connection with HUSAL-1

<p>HUDPL-II: KEY PRIOR ACTIONS FOR APPROVAL OF FIRST LOAN APRIL 2004</p>	<p>HUDPL-II: ACTIONS FOR BOARD APPROVAL OF DPL-II TENTATIVE DECEMBER 2005</p>	<p>HUDPL-II: INDICATIVE TRIGGERS FOR DPL-III TENTATIVE AUGUST 2007</p>	<p>HUDPL-II: KEY COMPLEMENTARY ACTIVITIES OF TA LOAN</p>	<p>HUDPL-II: EXPECTED OUTCOMES AND MONITORING INDICATORS</p>	<p>HUDPL-II: IEG COMMENT ON RESULTS</p>
				<p>financed by Habitat</p>	
<p>VII. LOW AND MODERATE INCOME LAND DEVELOPMENT (Objective: to increase the supply of and access to urban land for poor people and improve this market's functioning.)</p>					
<p>SEDESOL has completed a full assessment of state and municipal land regulations in two regions to rationalize and simplify the land development process (States of Baja California, Baja California Sur, Chihuahua, Coahuila, Durango, Nuevo Leon, Sinaloa, Sonora and Tamaulipas).</p>		<p>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.</p>	<p>Evaluation of the use of land inventories</p> <p>Study that analyzes the formal and informal land markets and prepares an action plan including implementation of a pilot program for land development for low and moderate income residents.</p>	<p><i>Outcome:</i> Costs and time required for land development reduced. Increased scale of and private-sector involvement in low-moderate-income land development.</p> <p><i>Indicator:</i> Number of serviced plots that have been allocated to low- and moderate-income beneficiaries.</p>	<p>There is no evidence that the costs and time needed for urban land development have been reduced.</p> <p>Similarly, there is no data showing a greater involvement in urban land supply.</p> <p>Data on the provision of serviced plots to lower income households is not available.</p>
<p>VIII. DISASTER AND PREVENTION AND MANAGEMENT (Objective: to increase capacity to prevent and manage the damage caused by natural disasters)</p>					
<p>SEDESOL has carried out at least 30 community-level risk analyses and 15 sensitization and mitigation projects under the Habitat program.</p>			<p>Review of the methodology to elaborate Risk Atlases</p> <p>Training for local authorities in risk prevention and disaster mitigation</p>	<p><i>Outcome:</i> Vulnerability to natural disaster events is reduced significantly in Mexico's major cities that receive support from Habitat</p> <p><i>Indicator:</i> a) Number of cities that have risk atlases b) Percentage of local regulations and planning instruments that are in the process of being modified that incorporate information provided by risk atlases.</p>	<p>Simply having a risk atlas is not a good indicator of the ability to prevent and manage natural disaster damage.</p> <p>The scope of these actions was very limited, and there is no evidence that it reduced the vulnerability of Mexico's major cities to natural disasters.</p> <p>Reducing disaster vulnerability depends upon many other actions across different sectors.</p>

Source: HUDPL-II Program Document p. vii, pp. 17-25, and Annex 2.

C. HUDPL-III MATRIX OF POLICY ACTIONS, EXPECTED OUTCOMES, AND INDICATORS

Third Mexico Affordable Housing and Urban Poverty Development Policy Loan (Loan 7491-MX)

HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF FIRST LOAN APRIL 2004	HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF DPL-II NOVEMBER 2005	HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF DPL-III NOVEMBER 2007	HUDPL-III: KEY COMPLEMENTARY ACTIVITIES OF LA LOAN	HUDPL-III: EXPECTED OUTCOMES AND MONITORING INDICATORS	HUDPL-III: IEG COMMENT ON RESULTS
I. MACROECONOMIC FRAMEWORK					
Maintenance of sound macroeconomic framework consistent with policy objectives and programs described in the Letter of Development Policy.	Maintenance of sound macroeconomic framework consistent with policy objectives and programs described in the Letter of Development Policy.	Maintenance of sound macroeconomic framework consistent with policy objectives and programs described in the Letter of Development Policy.		<i>Outcome:</i> Macroeconomic stability supports achievement of program objectives.	Good results were obtained by GOM, but not as a consequence of the operation.
II. NATIONAL HOUSING POLICY AND INSTITUTIONAL FRAMEWORK (Objective: to support GOM's efforts to improve national policies and institutions for housing and urban development)					
Approval of the National Housing Development Policy and setting up CONAFOVI as the overall coordinator for housing policy.			Evaluation of housing programs. Support for housing information system.	<i>Outcome:</i> National Housing policy established, along with supporting institutional framework to reach overall goal of producing 750,000 new housing solutions per year by 2006. <i>Indicators and base line data:</i> 1. Number of housing solutions for households earning 4MW or less. (Dec. 2005: 277,675) 2. Ratio of number of housing solutions for households earning 4MW or less to total housing solutions. (Dec. 2005: 49%)	Institutional framework for policy implementation still fragmented with rift between housing and urban development sides. In addition, active involvement of the Presidency and the Congress in housing policy leaves the formal framework out of key decisions. HUDPL-II indicators do not measure policy and institutional. SHF became one of Mexico's best managed development banks.
III. HOUSING SUBSIDIES (Objective: to make the federal housing system more efficient by designing and implementing a unified system of subsidies to facilitate access to housing by low and moderate income families.)					
The Government has mandated a unified housing subsidy program to be administered by FONHAPO/ FONAEVI that is efficient, progressive, and equitable as established through presidential decree.	Government has completed an evaluation of federal housing subsidy programs taking into account land and infrastructure subsidies delivered at local level to federally assisted housing projects. Results are reflected in subsidy programs designed for 2006.	Government has reformed existing subsidy system to improve equity across programs; prevent combining subsidies from multiple federal programs; establish consistent rules for beneficiary selection, including by income group, and link receipt of subsidy to household savings through (i) design of operational rules, corresponding budget allocation (2007), and implementation of a new federal subsidy program; and (ii) modification of operational rules of existing subsidy programs.	Comprehensive evaluation of federal housing subsidy programs. Support to housing subsidy working group and to design and implementation of unified subsidy system. Study to develop method to	<i>Outcome:</i> Federal housing subsidies unified; amounts of housing subsidies across programs and income segments are harmonized and package of programs fulfill all main subsidy	Subsidy programs still not unified and inefficient interest rate subsidies, by far the most important and growing, remain untouched by reform. Evidence that up-front subsidies have

HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF FIRST LOAN APRIL 2004	HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF DPL-II NOVEMBER 2005	HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF DPL-III NOVEMBER 2007	HUDPL-III: KEY COMPLEMENTARY ACTIVITIES OF TA LOAN	HUDPL-III: EXPECTED OUTCOMES AND MONITORING INDICATORS	HUDPL-III: IEG COMMENT ON RESULTS
		calculate present value of FONAVITI and FOVISSSTE subsidy packages. Support for capacity building of FONHAPO/ FONAEVI.		policy objectives. Greater clarity of objectives, transparency, improved targeting and beneficiary selection systems, equity, and avoidance of negative market effects. <i>Indicators and base line data:</i> 1. Total amount of subsidies of all programs to population of less than 3MW/and non-formally employed. ('000) (Dec. 2004: 1,704,962) 2. Average subsidy amount per household across income segments by program. (See Appendix 9) 3. Number of beneficiaries who receive more than one subsidy from ONAVIS. (Dec. 2005: 3,283) 4. Ratio of up-front grants and interest buy-downs to total implicit interest rate subsidies (Dec. 2004: 0.0076)	benefited low-income families is incomplete. Monitoring indicators were appropriate, but there was little data available for measurement

<p>HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF FIRST LOAN APRIL 2004</p>	<p>HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF DPL-II NOVEMBER 2003</p>	<p>HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF DPL-III NOVEMBER 2007</p>	<p>HUDPL-III: KEY COMPLEMENTARY ACTIVITIES OF TA LOAN</p>	<p>HUDPL-III: EXPACTED OUTCOMES AND MONITORING INDICATORS</p>	<p>HUDPL-III: REG COMMENTION RESULTS</p>
<p>IV. HOUSING CREDIT AND HOUSEHOLD SAVINGS (Objective: to bolster systems for housing loans and savings and move them down-market.)</p>					
<p>Congress has approved a set of reforms that strengthen the legal framework at the national level for mortgages (<i>credito hipotecario</i>), allowing adjudication of defaulted mortgage liens in federal courts, simplifying documentation required to prove the existence of the lien, and allowing for extra-judicial foreclosure of collateral trusts.</p> <p>Congress has approved a new financial transparency law related to mortgage loans, providing standardized, clear and comparative information and contracts to borrowers. SHF has issued rules for the licensing of property appraisers, and the calculation of costs disclosed for residential mortgage loans.</p>	<p>SHF has designed and implemented a pilot project to finance housing improvements and expansions in accordance with standards agreed between GOM and World Bank.</p>	<p>SHF mainstreams financing of home improvement, addition, and purchase of existing housing in accordance with standards agreed between GOM and World Bank, through the introduction of new partnerships and products for housing micro-finance.</p>	<p>Studies or support program for potential borrowers with regard to mortgage financing.</p> <p>Software and hardware support for SHF to accelerate development and distribution of credit database.</p> <p>Development of norms for SOFOLs.</p>	<p>Outcome: More loans, greater funding, availability and penetration at market lower levels demonstrated by housing financial system.</p> <p>Indicators and base line data: 1. Amount of mortgage financing of private sector (SOFOLs) to segment of income population 3-8 MW (MXP Million) (Dec 2005: 2,380) 2. Amount of housing microfinance by SHF to households with incomes up to 5MW (MXP Million) (Dec 2005: 0,275) 3. Financial sustainability measured by total internally generated income/total expenses + imputed cost of capital (Dec 2005: 1.01)</p>	<p>SHF mortgage lending continued to shrink and move down-market. Smaller, more affordable loans accounted for a smaller share of the total at the completion of the program than at the beginning.</p> <p>In the last year of the program, SHF tried to move down-market through micro-credit.</p> <p>Securitization of mortgages helped mobilize more resources for housing, making up for some of the shortfall.</p> <p>The value of central registers of creditworthiness was diminished as autonomous Sofoles failed to report their full housing loan portfolios.</p>
<p>V. URBAN PROPERTY REGISTRIES AND RIGHTS (Objective: to strengthen urban real property registries and rights.)</p>					
<p>Two state governments have started to implement property registry modernization programs with support from CONAFOVI.</p>	<p>Five more state governments have implemented programs to modernize their property registries according to agreed guidelines between GOM and World Bank.</p>	<p>Property registry modernization program is expanded to cumulatively cover at least 18 states (representing 11 additional states).</p>	<p>Support for modernization of property registries in 5 states.</p>	<p>Outcome: Time required to register a mortgage lien in pilot states reduced substantially.</p> <p>Indicators and base line data: Time required to register a property in states with property registries modernization programs.</p>	<p>The chosen indicator reflects only the speed of processing, not necessarily the strength of the systems.</p> <p>Bar system was further expanded to eleven more states as planned.</p>

HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF FIRST LOAN - APRIL 2004	HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF DPL-II - NOVEMBER 2005	HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF DPL-III - NOVEMBER 2007	HUDPL-III: KEY COMPLEMENTARY ACTIVITIES OF LA LEAN	HUDPL-III: EXPECTED OUTCOMES AND MONITORING INDICATORS	HUDPL-III: HEG COMMENT ON RESULTS
VI. NATIONAL URBAN POLICY, SLUM UPGRADING, AND INSTITUTIONAL STRENGTHENING (Objective: to coordinate and support physical and social investments in poor neighborhoods.)					
Government has approved and presented National Urban Development and Territorial Planning Policy and strengthened transparency through presentation of an annual report on policy implementation and provision of information on related programs to public through internet. SEDESOL poverty mapping has been completed and used for targeting social programs (Habitat, Oportunidades, Licensa).	SEDESOL has strengthened Habitat through participatory planning, coordination, and sequencing investments.		Design and dissemination of methodology and technological platform for use and utilization of information on Poverty Maps	<i>Outcome:</i> Increased efficiency of slum upgrading under Habitat as measured by greater community participation & investment planning, and improved sequencing of investment. <i>Indicators and base line data:</i> 1. Number of slums that have prepared or updated their self-diagnosis under Habitat 2. Number of slums that have prepared participatory planning based on their self-diagnosis 3. Number of social auditing processes financed by Habitat (Dec 2005: 82)	Community participation is not a good indicator coordinating investments to upgrade poor areas. The number of slums affected was small. There is no evidence of HUSAL-1 helping to coordinate investments in upgrading slum areas. GOM's main program for this, <i>Habitat</i> , went ahead and expanded with significant support of IADB.

<p>HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF FIRST LOAN - APRIL 2004</p>	<p>HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF DPL-II NOVEMBER 2005</p>	<p>HUDPL-III: KEY ACTIONS GOVERNMENT IMPLEMENTED BEFORE BOARD PRESENTATION OF DPL-III NOVEMBER 2007</p>	<p>HUDPL-III: KEY COMPLEMENTARY ACTIVITIES OF TA LOAN</p>	<p>HUDPL-III: EXPECTED OUTCOMES AND MONITORING INDICATORS</p>	<p>HUDPL-III: IEG COMMENT ON RESULTS</p>
<p>VII. LOW AND MODERATE INCOME LAND DEVELOPMENT (Objective: to increase the supply of and access to urban land for poor people and improve this market's functioning.)</p>					
<p>SEDESOL has completed a full assessment of state and municipal land regulations in 2 regions to rationalize and simplify land development process (States of Baja California, Baja California Sur, Chihuahua, Coahuila, Durango, Nuevo Leon, Sinaloa, Sonora, and Tamaulipas).</p>	<p>Government has completed a quantitative cost/benefit analysis of land development and has implemented a pilot program that facilitates low- and moderate-income land development.</p>	<p>Evaluation of use of land inventories. Study that analyzes formal and informal land markets and prepares an action plan including implementation of a pilot program for land development for low and moderate income residents.</p>	<p>Outcome: Costs and time required for land development reduced. Increased scale of and private-sector involvement in low- moderate-income land development. Indicators and base line data: 1. Number of serviced plots that have been allocated to low- and moderate-income beneficiaries (Dec. 2005: 2,600)</p>	<p>There is no evidence that the costs and time needed for urban land development have been reduced. Similarly, there is no data showing a greater involvement in urban land supply. Data on the provision of serviced plots to lower income households is not available.</p>	
<p>VIII. DISASTER PREVENTION AND MANAGEMENT (Objective: to increase capacity to prevent and manage the damage caused by natural disasters.)</p>					
<p>SEDESOL has carried out at least 30 community-level risk analyses and 15 sensitization and mitigation projects under Habitat program.</p>	<p>Review of methodology to elaborate risk atlases. Training for local authorities in risk prevention and disaster mitigation</p>	<p>Outcome: Vulnerability to natural disaster events is reduced significantly in Mexico's major cities that receive support from Habitat. Indicators and base line data: 1. Number of cities that have risk atlases. (Dec 2005: 38) 2. % of local regulations and planning instruments that are being modified that incorporate information provided by risk atlases (Dec 2005: 13.2)</p>	<p>Simply having a risk atlas is not a good indicator of the ability to prevent and manage natural disaster damage... The scope of these actions was very limited, having reach just 10 percent of Mexican cities. There is no evidence that it reduced the vulnerability of Mexico's major cities to natural disasters. Reducing disaster vulnerability depends upon many other actions across different sectors.</p>		

Annex C. Borrower Comments

From: Nadja Comorera Pfeiffer
Sent: 03/18/2010 12:28 PM CST
To: Monika Huppi; Rgilbert@worldbank.org)
Cc: mquiroz@conavi.gob.mx; plmerla@conavi.gob.mx; rpirez@conavi.gob.mx
Subject: Re: MEXICO-- FOVI Restructuring Project (Loan 4443-MX); Affordable Housing & Urban Poverty Sector Adjustment Loan I (Loan 7229-MX); Affordable Housing & Urban Poverty Reduction Development Policy Loan II (Loan 7340-MX); Affordable Housing & Urban Poverty Reduction Development Policy Loan III (Loan 7491-MX) Draft Project Performance Assessment Report

Estimada Monika:

Referente a la versión preliminar del Informe de Evaluación de los proyectos contratados con el Banco Mundial que nos hicieron favor de hacer llegar, con relación a la información sobre los Registros Públicos de la Propiedad y Subsidios, esta Comisión no tiene comentarios al respecto.

Reciba un cordial saludo

Nadja



Lic. Nadja Comorera Pfeiffer
 Directora de Enlace con
 Organismos Internacionales
 Tel. 51389991 ext. 67147
 Email: npfeiffer@conavi.gob.mx

(Unofficial translation by Roy Gilbert)

Dear Monika:

With reference to the draft Evaluation Report (PPAR) on the projects agreed with the World Bank that you kindly sent to us, this Commission (CONAVI) has no comments on the information dealing with its Real Property Registers and Subsidies aspects.

Sincerely,

Nadja

