

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**MEXICO**

**MULTIPHASE PROGRAM TO ADDRESS URBAN POVERTY,  
PHASE II**

**(ME-L1019)**

**LOAN PROPOSAL**

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Electronic Links and References	
Basic socioeconomic data	<a href="http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata">http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata</a>
Status of loans in execution and loans approved	<a href="http://ops/approvals/pdfs/MEen.pdf">http://ops/approvals/pdfs/MEen.pdf</a>
Tentative lending program	<a href="http://opsgs1/ABSPRJ/tentativelending.ASP?S=ME&amp;L=EN">http://opsgs1/ABSPRJ/tentativelending.ASP?S=ME&amp;L=EN</a>
Information available in the SCL/SCL files	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1108283">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1108283</a>
Procurement plan	<a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1219933">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1219933</a>
Basic table for monitoring policies GN-2331-5 and AB-2358	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1108627">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1108627</a>

## ABBREVIATIONS

CDC	Community Development Center
CIESAS	Centro de Investigaciones y Estudios Superiores en Antropología Social [Center for Advanced Research and Studies in Social Anthropology]
COLEF	Colegio de la Frontera Norte
CONAPO	Consejo Nacional de Población [National Population Council]
CONEVAL	Consejo Nacional de Evaluación de la Política de Desarrollo Social [National Social Development Policy Evaluation Council]
COPLADE	Comité de Planeación para el Desarrollo del Estado [State Development Planning Committee]
CORETT	Comisión Nacional para la Regularización de la Tenencia de la Tierra [National Landholding Regularization Commission]
DGEMPS	General Directorate for Social Program Evaluation and Monitoring (SEDESOL)
EP	Executive profile
FONAES	Fondo Nacional de Apoyo para Empresas en Solidaridad [National Support Fund for Cooperatives]
FONHAPO	Fondo Nacional de Habitaciones Populares [National Low-Cost Housing Fund]
ICB	International competitive bidding
ILCE	Latin American Institute for Educational Communication
INDAABIN	Instituto de Administración y Avalúos de Bienes Nacionales [National Properties Administration and Appraisal Institute]
IP	Integrated project
MPR	Mathematica Policy Research
NAFIN	Nacional Financiera SNC
OR	Operating rules of the Habitat Program
PFA	Priority focus area
PND	National Development Plan
RBMS	Results-based Monitoring System
SDUOT	Subsecretaría de Desarrollo Urbano y Ordenación del Territorio [Department of Urban Development and Land-Use Planning]
SE	Ministry of Economy
SEDESOL	Ministry of Social Development
SEGOB	Ministry of the Interior
SEP	Ministry of Public Education
SFP	Ministry of Public Affairs
SIIPSO	Integrated Information System on Social Programs
SS	Ministry of Health
UAM	Universidad Autónoma Metropolitana
UPAPU	Unidad de Programas de Atención de la Pobreza Urbana [Urban Poverty Programs Unit]
UPS	Urban poverty strategy

## PROJECT SUMMARY

### MEXICO MULTIPHASE PROGRAM TO ADDRESS URBAN POVERTY, PHASE II (ME-L1019)

Financial Terms and Conditions <sup>1</sup>				
Borrower: United Mexican States Executing agency: Ministry of Social Development, in cooperation with the states and municipios			Amortization period:	25 years
			Grace period:	3 years
			Disbursement period:	3 years
<b>Source</b>	<b>Phase I (in US\$ millions)</b>	<b>Phase II (in US\$ millions)</b>	Interest rate:	LIBOR
IDB (Ordinary Capital)	350	150	Inspection and supervision fee:	0%
Local	150	150	Credit fee:	0.25%
Total	500	300	Currency:	U.S. dollars from the Single Currency Facility
Project at a glance				
<b>Project objective:</b>				
The principal objective of Phase II of the program is to support the Mexican government's efforts, through the Habitat program, to reduce urban poverty and improve the lives of poor families, by providing adequate access to social services and basic infrastructure.				
<b>Special contractual conditions:</b>				
a) <b>For the first disbursement:</b> Signature of the mandate contract with Nacional Financiera (NAFIN) (paragraph 3.1);				
b) <b>For execution:</b> (i) reimbursement of eligible expenditures, drawn on loan resources (paragraph 3.13) and (ii) establishment of the baseline and presentation of the program evaluation report (paragraph 3.19 et seq.).				
<b>Exceptions to Bank policies:</b>				
See: (i) procurement (paragraphs 3.4, 3.6, and 3.7) and (ii) program audit (paragraph 3.15).				
<b>Project consistent with country strategy:</b> Yes [ X ]              No [ ]				
<b>Project qualifies as:</b> SEQ [ X ]      PTI [ X ] Sector [ ]              Geographic [ ]              Headcount [ ]				
<b>Procurement:</b> Goods and works will be procured and consultants selected and hired in accordance with Bank policies set forth in documents GN-2349-7 and GN-2350-7, respectively (see Procurement Plan and paragraphs 3.4-3.8).				
<b>Verified by ESR on:</b> This document was reviewed at the 7 September 2007 meeting.				

<sup>1</sup> The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.\*

\* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## I. FRAME OF REFERENCE

### A. Frame of reference

- 1.1 The Multiphase Program to Address Urban Poverty, Phase I (loan 1583/OC-ME) was approved by the Bank's Board of Executive Directors on 3 November 2004.<sup>1</sup> The objective of the program is to support the Mexican government's efforts to address poverty in the country through its Habitat program for improving the living conditions of the urban fringe population. The Bank analyzed the program as a two-phase operation, with a total estimated cost of US\$1 billion. Phase I represented an operation in the amount of US\$500 million, of which the Bank financed US\$350 million.
- 1.2 The Government of Mexico and the Bank agreed that approval of Phase II would be conditional upon meeting the following targets for Phase I: (i) disbursement of at least 50%, and commitment of at least 75%, of loan funds; (ii) successful implementation of the Habitat program in at least 1,000 priority focus areas (PFAs) in 200 cities, with a consequent increase in vulnerable groups' access to social services, and improvements in the coverage of infrastructure, facilities, and basic services; (iii) external midterm evaluation completed on the Habitat program's impact and its operational management; and (iv) presentation of the audited financial statements, and compliance with any recommendations of the external auditors or the Bank.
- 1.3 The objectives of this document are: (i) to report on the compliance status of the targets established for Phase I; (ii) to summarize the conclusions from the impact and operational evaluations of Phase I; and (iii) to submit for the Executive Board's consideration the proposal for Phase II of the Multiphase Program to Address Urban Poverty.

### B. The Habitat program in the country's development strategy

- 1.4 Mexico's cities with over 2,500 inhabitants are home to the majority (more than 70%) of the national population. The greatest number of poor Mexicans (more than 23 million) live in the cities. The government's 2007-2012 National Development Plan (PND) notes that, despite progress in recent years in extending basic services to the poor, there are still around 3 million people without drinking water service and more than 6 million without sewage services. In addition, most urban settlements have no system for treating wastewater, and solid waste is dumped in the open. In 8 out of every 10 cities with a population of more than 50,000, less than half of the street system is paved. The 2007-2012 PND also points out that, while social policies have improved basic services coverage, they have not always succeeded in boosting incomes, which are the basis for the sustained reduction of poverty. These conditions point to the urgency of a concerted effort by the federal government, in coordination with the other levels of government, to bring about a sustained reduction in urban poverty. In this context, the 2007-2012 PND places

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<sup>1</sup> Annex I contains the executive summary of the loan proposal for Phase I, PR-2883.

special emphasis on consolidating public policies to strengthen access to basic services, and on coordinating social and economic policies to help people boost their incomes.

- 1.5 According to the 2007-2012 PND, the ultimate goal of the government's social policy is to achieve sustainable human development for Mexicans and their well-being, by assuring equal opportunities. Priority will be given to urban municipal development through the effective targeting of resources and the coordination of efforts between the federal government and the other levels of government, with due regard to the responsibilities of each level. Social participation will be a key element of this policy.
- 1.6 Habitat is the federal program specifically designed to improve housing and living conditions in urban fringe areas. With its integrated approach, the program intervenes in urban areas where poverty indicators are high, and actions are targeted in areas where the poorest people are concentrated. Its potential beneficiaries are some 8 million poor persons. Because of these characteristics, the Habitat program has been designated the lead agency for the federal government's new urban poverty strategy (UPS). At the local level, it will coordinate the work of the three levels of government in addressing the social problems of the poorest urban population groups. The institutions involved are the Ministry of Public Education (SEP), the Ministry of Economy (SE), the Ministry of Health (SS), the Ministry of the Interior (SEGOB), the National Landholding Regularization Commission (CORETT), the National Support Fund for Cooperatives (FONAES) of the SE, and the National-Low Cost Housing Fund (FONHAPO). Through the UPS, these institutions will target some of their program investments at areas in 81 municipios with the highest concentration of urban poverty, where Habitat has already identified the areas with the highest poverty indices.

**C. Bank strategy with Mexico**

- 1.7 The proposed program is consistent with the Bank's current strategy with Mexico, as it seeks to address social sector modernization and poverty reduction through development and implementation of programs to subsidize social needs. The program also fits within the Bank's new strategy with Mexico now in the course of preparation.

**D. Fulfillment of the agreed targets for moving to Phase II**

- 1.8 The Government of Mexico created the Habitat program in 2003 in order to coordinate social policy objectives with those of urban development. The main feature of Habitat is its integrated approach, which combines upgrades to basic infrastructure and facilities in urban fringe areas with the delivery of social services and community development efforts. It also supports local capacity building in urban planning, with a view to securing orderly, sustainable growth with minimum risks. Another distinctive feature of Habitat is that it delineates specifically identified urban districts as "priority focus areas" (PFAs), where most people fall below the poverty line. The following table reproduces Table 2.2 from the loan

document for Phase I (PR-2883), summarizing the criteria used to select cities and metropolitan regions, and the technical eligibility criteria for the PFAs.

<b>Selection criteria for cities and metropolitan regions</b>
i. Higher percentage of poor urban households
ii. Greater deficit of basic urban services
iii. Resources allocated and spent in the previous fiscal year
<b>Technical eligibility criteria for selecting PFAs</b>
<b>a. Socioeconomic</b>
i. At least 50% of households are poor.
ii. Lot occupancy rate (at least 80% of the lots are occupied) and population density (at least 35 dwellings per hectare). Preferably 500 dwellings or more.
iii. Greater basic infrastructure deficit (drinking water, drainage, street lighting, paving, sewage, electricity, and collection and disposal of domestic solid waste).
<b>b. Technical feasibility</b>
iv. Proximity to water supply, sewage and electricity networks or, where this is not the case, the possibility of local water and sewage solutions at reasonable cost.
v. Existing road access, or the feasibility of providing road access from the PFA's barrios to nearby urban areas, at a cost compatible with program investment limits.
<b>c. Legal and urban planning</b>
vi. The constructions are not located within areas of: (1) private or disputed property; (2) restricted use.
vii. The PFA must be within city limits or figure in the municipal urban master plan.
<b>d. Environmental</b>
viii. The PFA must not be located in areas at high risk of natural disaster (landslides, flooding, etc.) or, where such risks are present, the cost of mitigation or correction must be compatible with program investment limits.

1.9 The program runs nationwide and is renewed every year with the signature of participation agreements with each of the 31 states and with the Federal District. This broad coverage presented a number of challenges in designing and executing programs such as: developing tools for targeting and allocating funds; designing and implementing management information systems; developing and systematizing complex operating procedures that involved three levels of government; ensuring effective coordination between the federal government, the states and municipios; working through the executing agencies to promote community participation; and dealing with the varying capacities of the municipios, to name a few. These challenges were successfully met. Moreover, the program has steadily improved its working tools and systems, particularly in response to the evaluations that have been made to date.

1.10 It was in this context that the Bank provided technical assistance<sup>2</sup> and financing for loan 1583/OC-ME. With the help of that program, Habitat has benefited

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<sup>2</sup> Nonreimbursable technical cooperation operations TC-03-06-036 (Strengthening Habitat Management) and TC-03-01-036 (Social Strategy Analysis).



1,264 PFAs since 2004 in 207 cities, in every state and in the federal capital. There are in fact 3,125 PFAs that have high poverty indices and are located in cities of more than 15,000 people, and are thus potentially eligible for the program. The potential program universe is 1.9 million poor households. Of this total, the program has served 40.5%, representing some 3.2 million people, as of December 2006.

- 1.11 Habitat leverages and manages funds from the three levels of government and from program beneficiaries. Table 1.1 tracks total investment under the program by source of financing (federal, state, municipal and beneficiaries) over the last three years (2004-2006). During this time the federal subsidy to Habitat represented an investment of 5,421 million pesos (at 2006 prices), or approximately US\$507 million. Over the same time, state and municipal government contributions amounted to 5,140.3 million pesos (at 2006 prices), while the share borne by the communities and other participants was approximately 376.2 million pesos (at 2006 prices). Half of the total investment was federal, a third was municipal, and slightly over 15% came from the states; the remaining 2% represented beneficiary contributions.

**Table 1.1**  
**Contributions by the three levels of government and by beneficiaries (US\$ millions)\***

<b>Contribution</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Total</b>
Federal	146	186	174	507
State	44	52	47	143
Municipal	93	126	118	337
Beneficiaries	11	12	12	35
<b>Total</b>	<b>294</b>	<b>376</b>	<b>351</b>	<b>1,022</b>

Source: Staff calculations based on data from the Integrated Information System on Social Programs (SIIPSO).

\*In 2006 constant pesos and assuming an exchange rate of US\$1 = 10.7 pesos

## **E. Results from Phase I**

- 1.12 The nationwide coverage of Habitat posed a major operating and administrative challenge to the Ministry of Social Development (SEDESOL). During Phase I of the program, SEDESOL achieved the following: (i) it implemented the coordination agreements (which according to the predefined institutional framework had to be signed and renewed annually) with all the state governments and government of the Federal District, with the involvement of the local municipios; (ii) it developed processes and systems capable of supporting a complex operation that included monitoring projects and disbursements to participating entities at the three levels of government; and (iii) it achieved high execution rates for the fiscal resources allocated to the program.

1.13 In addition, SEDESOL has met the conditions established in the Loan Proposal (PR-2883) for triggering Phase II. Table 1.2 shows the indicators and parameters agreed by the borrower and the Bank for Phase I of the program, their fulfillment status, and the means of verification.

**Table 1.2**  
**Agreed indicators for triggering Phase II of the program**

Indicators	Targets achieved and means of verification
Disbursements > 50% Commitments > 75%	<b>Achieved:</b> 73% disbursed. <b>Achieved:</b> More than 90% committed. <b>Source:</b> SIIPSO.
Successful implementation of the Habitat component in at least 1,000 PFAs in 200 cities, with a consequent increase in vulnerable groups' access to targeted social services, and improvements in the coverage of infrastructure, facilities, and basic services in urban fringe areas.	<b>Achieved:</b> Habitat has benefited more than 1,264 PFAs over one or more years in 207 cities. The evaluations report improvements in the coverage of infrastructure and facilities and basic services in the beneficiary zones <b>Source:</b> SIIPSO.
External midterm assessment completed on the Habitat program's impact and its operational management.	<b>Achieved:</b> The external midterm impact assessment was performed by Mathematica Policy Research (MPR) and focused on access to basic infrastructure services. There were also several external evaluations on Habitat's operational management, with a qualitative focus, conducted in 2005 by Colegio de la Frontera Norte (COLEF) and in 2006 by Universidad Autónoma Metropolitana (UAM). The three external evaluations performed by UAM, COLEF and the Center for Advanced Research and Studies in Social Anthropology (CIESAS) were subjected to a meta-analysis in 2005. <b>Source:</b> Evaluation reports from MPR, UAM, COLEF and CIESAS.
Presentation of the audited financial statements, and compliance with any recommendations of the external auditors or the Bank.	<b>Achieved:</b> The audited financial statements for 2005 and 2006 were submitted to the Bank as agreed. The recommendations from those audits were minimal and were addressed satisfactorily in an implementation plan executed by the Urban Poverty Programs Unit (UPAPU). <b>Source:</b> Audited financial statements.

1.14 The Multiphase Program to Address Urban Poverty is now in its third year of execution.<sup>3</sup> Table 1.3 shows investment trends for each Habitat component over the period 2004-2006, according to the classification that prevailed until 2006. In response to municipal demand, federal subsidies in the last three years have focused on Barrio Improvement (62%); Social and Community Development (11%); Urban Facilities and Image (11%); Environmental Improvement and Risk Prevention (6%); Opportunities for Women (5%); Safety for Women and their Communities

<sup>3</sup> The following data are for phase one of the loan. The Habitat program began operating in 2003 with own resources.

(2%); Habitat Development Agencies (2%); and Land for Low-income Housing and Urban Development (1%). These percentages indicate that priority has been given to overcoming shortages of infrastructure and basic social services, at the insistence of the communities.

- 1.15 Out of the total number of projects financed, 12,569 were in the barrio improvement, urban facilities and image components, and the remaining 17,632 were of a social nature, in the remaining categories. Of the 30,201 projects supported by Habitat between 2004 and 2006, 88.6% were executed by the municipios, and the remainder by the state governments. Consistent with the thrust to make interventions as comprehensive as possible, the proportion of total investment devoted to social services more than doubled over that time.

**Table 1.3**  
**Habitat: Investment by component, using the classification in place through 2006**

Component	2004 (%)	2005 (%)	2006 (%)	Total (%)
Social and community development	7	12	14	11
Opportunities for women	5	5	5	5
Safety for women and their communities	-	2	2	2
Urban facilities and image	10	11	11	11
Barrio improvement	69	59	59	62
Land for low-income housing and urban development <sup>4</sup>	0	1	1	1
Habitat development agencies	2	2	2	2
Environmental improvement and risk prevention	6	7	5	6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Staff preparation based on SIIPSO data.

- 1.16 Within the “barrio improvement” component, investment was concentrated primarily on street paving (37% of total investment under this component), urban development (24%), sewage facilities (13%), drinking water supply (8%), and the construction, rehabilitation and reconditioning of social infrastructure such as community development centers (CDCs) and childcare centers (8%). The CDCs are physical premises, financed in part by Habitat and entrusted to the municipio for administration, from which most of the social activities financed by the program are conducted. On an average annual basis, the Habitat PFAs have benefited from the construction or rehabilitation of more than 205,000 lineal meters of water pipes, 241,000 lineal meters of drainage pipes, 5 million m<sup>2</sup> of paving, and more than 258,000 meters of power lines. Habitat also sponsored the construction or rehabilitation of CDCs in 481 PFAs, and they have housed many of the activities financed under the “social and community development”, “opportunities for women”, and “safety for women and their communities” components.

<sup>4</sup> While the Habitat program financed this component, Bank funds were not used for this purpose.

- 1.17 Under the “social and community development” component, Habitat has helped create income-generating capacities and promote income-generating opportunities for the poor, including activities in trade schools and workshops (20% of spending under this component); social organization and community development (40%); addressing and preventing high-risk behavior among adolescents (7%); and assistance for the elderly and persons with disabilities (26%).
- 1.18 Within the “opportunities for women” and “safety for women and their communities” components, Habitat has, among other things, helped strengthen income generating capacities for women, as well as community awareness and prevention activities relating to family violence and support for its female victims.
- 1.19 Under the “urban facilities and image” component, the bulk of spending has gone into reviving and preserving historic centers<sup>5</sup> (25% of total spending under this component), urban infrastructure, transportation corridors and improved urban mobility, curbs, sidewalks and other street improvements (41%). The “environmental improvement and risk prevention” component has financed activities and works to prevent and mitigate environmental risks, including a natural hazards atlas, warning systems and contingency plans (56%), garbage collection and disposal, and the outfitting of sanitary landfills (26%), preparation of disaster prevention strategies and education and awareness activities (8%). Under the “Habitat development agencies” component, financing has been provided for urban observatories, studies and drafts for urban development plans, and urban development activities (29%).

#### **F. Targeting of interventions**

- 1.20 Habitat’s targeting strategy, one of its distinctive features, has been very successful. Over the period 2004-2006, 93% of federal Habitat spending went to the PFAs, 78% of which were poor or very poor according to the definition used by the National Population Council (CONAPO)<sup>6</sup> and estimates from the 2006 external program evaluation.<sup>7</sup> The remaining 7% of funding was allocated to urban planning projects outside the PFAs, consistent with the program’s objectives. According to the 2007 operating rules (OR),<sup>8</sup> at least 80% of Habitat funding is supposed to be invested within the PFAs, however 93% has been invested there. This reflects a commitment to the core objective of investing in areas with high poverty indices.

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<sup>5</sup> While the Habitat program financed this component, Bank funds were not used for this purpose.

<sup>6</sup> A very poor PFA is one where at least 75% of the population is poor.

<sup>7</sup> UAM (2006).

<sup>8</sup> The Habitat operating rules govern program operations and constitute a legal document approved annually and published in the Official Gazette of Mexico and at the webpage of SEDESOL. The rules can be amended every year to improve program operations. The rules from one year remain in force until the ones for the following year are approved. These rules serve the same function as the operating regulations that the Bank prepares in other countries.

On the other hand, average per capita spending by the program in the poor and very poor PFAs was nearly twice as high as in the PFAs classed “moderately poor”.

## G. Evaluation

- 1.21 Mathematica Policy Research (MPR) completed the 2007 midterm impact assessment, which focused on assessing the program’s impact on access to basic infrastructure services, specifically drinking water, sewage and electricity, which represent 5%, 10% and 2% respectively of total Habitat investments (MPR 2007) over the period 2003-2006. Table 1.4 shows the decline in the basic services gap between 2000 and 2005 in the program’s beneficiary PFAs. A comparison of the situation before and after the three-year execution period shows substantial reductions in water, sewage and electricity service gaps.

**Table 1.4**  
**Changes in the water, sewage and electricity service gaps in Habitat PFAs**

Indicator	2000	2005
Percentage of households without piped water to the dwelling	56,7%	35,6%
Percentage of households without piped water to the property	21,9%	11,0%
Percentage of dwellings without sewer connections	43,8%	27,8%
Percentage of households without electricity	6,4%	1,4%

Source: “Evaluación del Programa Hábitat en Infraestructura Básica”, Mathematica Policy Research, Inc (2007).

- 1.22 The evaluation also presents the net impacts of Habitat in reducing basic service gaps, i.e. comparing the reduction in gaps between beneficiary PFAs and similar PFAs that received no Habitat funding under these headings. There was a robust and significant impact in reducing the sewage service gap: beneficiary PFAs reduced their gap by three percentage points more than non-beneficiaries. For the other variables, no significant differences were found.
- 1.23 The magnitude of net impacts with respect to the changes observed before and after the project (Table 1.4) reflects the similarly sharp reduction of gaps in the “control” PFAs between 2000 and 2005. However, interviews with municipal leaders suggested that the municipios may have reallocated resources from the total investment budget, away from Habitat beneficiary PFAs to non-beneficiary PFAs (i.e. the “control” PFAs used for comparative purposes in the MPR study). In this case, the net impact of Habitat in the headings under analysis should be complemented by an analysis of the additionality of resources allocated to the municipios, and how they were targeted.
- 1.24 It should also be noted that the MPR evaluation (2007) was unable to measure the impact of Habitat on the expansion of paved road surfaces (which accounted for nearly a quarter of total program investment), street lighting, or sidewalks and curbs in the beneficiary PFAs, because those variables were not included in the 2000 census or in the 2005 survey from which the baseline and monitoring data for this evaluation were derived. However, a review of case studies and the qualitative and

- operational evaluations of the program reveal improvements in vehicle and pedestrian circulation and in the internal and external connectivity of the PFAs. Moreover, the preliminary reports from the study of the program's impact on real estate values, now under way in the National Properties Administration and Appraisal Institute (INDAABIN), show that the greatest increases can be explained precisely by the extension of paving and street lighting. (The final report is due at the end of 2007).
- 1.25 While the midterm impact assessment of Habitat has analyzed investment in residential water, electricity and sewage infrastructure, the other activities have been covered by operational and results evaluations and case studies, which produced operational recommendations that have led to improvements throughout program execution.
  - 1.26 Among the operational improvements resulting from the qualitative evaluations were the following: the period of intervention in each PFA was extended from three to five years, to allow continuity in the investments; the proportionate distribution of subsidies by action line was changed to allow greater investment and thus more comprehensive coverage in the social and community development component; and module-based project planning and execution capacities were introduced for works that, because of their size, require a multiyear investment plan.
  - 1.27 Taken as a whole, the qualitative and operational evaluations conducted to date, together with the quantitative midterm evaluation by MPR, have identified a number of opportunities for improvement in Habitat activities. Moreover, two final evaluations are being conducted to supplement the results of the midterm evaluation. The first of these will analyze the functioning and management of the CDCs (from which most of the municipal social programs operate), and the implementation of social interventions. The second evaluation, noted above, estimates the change in the value of properties benefiting from Habitat interventions. The results of these evaluations will be available by the end of 2007.
  - 1.28 The distinctive feature of the program is that it promotes comprehensive and concurrent activities within a single geographic space that will simultaneously promote social and urban development while improving cities' planning capacity. For this reason, specific indicators have been defined for Phase II that will ensure an integrated approach to measuring the impact on the well-being of PFA dwellers (see Logical Framework). As well, the evaluations planned under Phase II include a multi-topic household survey together with an urban amenities inspection that will produce a comprehensive baseline in 2008, and spell out the expected impacts from the program (see evaluation strategy for Phase II, paragraphs 3.19 and 3.20).

#### **H. Challenges for Phase II**

- 1.29 Recognizing the significant accomplishments of Habitat (see paragraphs 1.8 to 1.11) and the results of the evaluations to date, the challenge in Phase II will be to consolidate the Habitat operation further so as to increase the impact and efficiency of its interventions and to leverage support from other programs targeted at the

- beneficiary populations. Following is a description of the main challenges, identified by the program operators and by the evaluations conducted.
- 1.30 There is consensus on **the need to improve the municipal programming of physical and social investments**. Because municipal governments are in office for only three years and many of them have weak institutional structures, they need support to strengthen their programming capacities, especially in terms of multiyear planning with a geographic focus, since they are ultimately responsible for planning and running the physical and social investments supported by Habitat. Improvements in the municipal programming process would have the following benefits: (i) the municipios would have instruments for estimating service gaps, as well as setting medium-term targets and measuring progress against them; and (ii) they would be better placed to identify, design and develop projects that will take advantage of synergy between infrastructure and social actions.
  - 1.31 Another challenge is **to make the activities financed by Habitat more sustainable**, and to increase the beneficiary population's involvement in decisions about the activities to be financed and/or in overseeing those activities: both of these areas are municipal responsibilities according to the General Law on Social Development. Phase I saw major efforts to promote social participation, by including the public in defining projects and promoting social oversight, but this process was not evenly applied.
  - 1.32 Hence the need to **strengthen municipal design and management capacities** with respect to: (i) public consultation on project design and implementation; (ii) project budgeting, including earmarking of funds for operation and maintenance of the technical aspects of infrastructure works; (iii) preparation of an operations plan for the CDCs that will ensure the viability of the social services offered there; and (iv) social oversight and management mechanisms for supervising and monitoring the works and the social services they provide.
  - 1.33 The **social and environmental sustainability of the program** needs to be addressed, in terms of all the constraints and opportunities of the physical setting of the activities and the environmental aspects that can have a direct impact on people's well-being in the beneficiary communities, and in particular on their health and living conditions. Social actions should be more closely linked to environmental actions in interventions in the polygons.
  - 1.34 Coordination with other public sector bodies also needs to be strengthened so that **Habitat can fulfill its function as the cornerstone of government's UPS activities** (see paragraph 1.6). Under this strategy, investments under some specific programs would be focused in 81 municipios, and SEDESOL, through Habitat, would coordinate the input of SEP, SE, SS, SEGOB, CORETT, FONAES and FONHAPO.
  - 1.35 In line with the above conclusions, the constraints posed by decentralized execution of the program during Phase I, the overall performance of Habitat, and on occasion its distinctive nature (its comprehensive field of intervention) have been

compounded by additional factors, including these: (i) the low investment ceiling in PFAs compared to total investment needs;<sup>9</sup> and (ii) at one year, the project execution period is too short and is hostage to the annual budget cycle, which restricts the planning horizon and impedes the undertaking of larger projects.

- 1.36 Finally, Habitat needs to make **further improvements in the integrated information systems for managing the program through SIIPSO (Integrated Information System on Social Programs)**, as well as the municipal mechanisms for programming and execution, and their accountability and transparency. The framework for the operational and impact assessment of Habitat interventions must be strengthened at the same time. These and other aspects will be addressed by specific interventions in Phase II.

## II. THE PROGRAM

### A. Objectives and description

- 2.1 The principal objective of Phase II of the program is to support the Mexican government's efforts, through the Habitat program, to reduce urban poverty and improve the quality of life of poor families. That improvement will come from providing adequate access to social services and basic infrastructure for people living in urban areas where poverty is most heavily concentrated.
- 2.2 The specific objectives of Phase II of the program are: (i) to strengthen the management capacity of municipios in the areas of social and urban development; (ii) to integrate interventions more thoroughly; (iii) to enhance the sustainability of physical and social interventions by strengthening mechanisms for community participation, social oversight and management; (iv) to consolidate Habitat's role as the cornerstone of activity under the new UPS; and (v) to establish an impact assessment system for the program.

### B. Description

- 2.3 The components of Phase II of the program will be similar to those of Phase I. Although their names have changed slightly, eligible activities will continue with the same general thrust (the establishment of safe communities is an added line of action in the 2007 operating rules). The first three components coincide with the three components of Habitat, according to its 2007 operating rules:
- 2.4 **Component 1: Social and Community Development**, which will help generate and strengthen income-earning capacities and opportunities for the poor; and creation of social infrastructure and community development. Projects will be financed for constructing, expanding, improving and rehabilitating buildings for the provision of social services.

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<sup>9</sup> Only poor households are eligible for the subsidy, and in some PFAs only 50% of households qualify.



- 2.5 **Component 2: Improving the Urban Environment** will introduce, expand or improve basic urban infrastructure and services in irregular settlements and integrate them into the city; improve the ecological setting; reduce vulnerability to natural hazards for people living in at-risk areas and buildings; strengthen or rehabilitate urban facilities and amenities; and in general contribute to conserving and enhancing the urban image. Financing will be provided for basic urban infrastructure networks: drinking water, sewage, roads, electrification and street lighting, paving, construction or rehabilitation of sidewalks, and disposal of solid waste. Support will be provided for improving access roads, developing exclusive corridors for public transit, and signage and control of garbage dumps. Comprehensive strategies for preventing natural disasters will also be defined.
- 2.6 **Component 3: Promoting Urban Development** will create and strengthen local bodies to pursue social and urban development initiatives and practices; interagency coordination; and regularize land tenure to provide poor families with proper registration and title for their property and preparation of comprehensive urban land-use plans. The component will finance the formulation or updating of plans, risk maps, municipal programs and regulations, and mechanisms for social participation in projects.
- 2.7 **Component 4: Management Support** will address three main aspects: (i) strengthening the management of Habitat; (ii) strengthening the tools and methods in the urban poverty strategy (UPS); and (iii) building municipal capacities for social and urban development.
- a. **Strengthening the management of Habitat.** The program will provide further support for management, coordination and monitoring by the Urban Poverty Programs Unit (UPAPU), in particular: (i) strengthening the SIIPSO;<sup>10</sup> (ii) design and implementation of an integrated service window to facilitate communication and addressing the needs of executing agencies; and (iii) fine-tuning existing tools for preparation and implementation of integrated projects. Technical assistance will be provided for improving the SIIPSO, which will involve adapting the system's records for monitoring the execution of the integrated projects; introducing a geographic information system for referencing all projects financed by the program; linking SIIPSO data to the Results-based Monitoring System (RBMS) that SEDESOL is developing; and building in a system of management indicators with warning signals to identify operational bottlenecks and technical assistance needs. Financing will also be provided for UPAPU operating expenses, which include computer hardware and software,

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<sup>10</sup> SIIPSO assists Habitat operators in executing projects, and also provides constantly updated information on project execution. The system links all entities involved in executing Habitat, from the central and local offices of SEDESOL to the State Development Planning Committees (COPLADEs) and the executors. The system records milestones for the entire project cycle.

communications equipment, and other essential expenses for the program to operate effectively.

- b. **Management of the UPS.** To support the operation, execution and consolidation of the Habitat program as the cornerstone of the new urban poverty strategy (UPS), financing will be provided for the following technical assistance activities: (i) development of an operating scheme for the UPS at the municipal level and of its linkages to the state and federal levels; (ii) establishment of a regulatory framework to coordinate responsibilities and interventions by all stakeholders; (iii) creation of a single roster and of an Integrated Information System for the UPS to track and measure the strategy's actions; (iv) training those who will implement the strategy; and (v) design and implementation of an impact assessment methodology for the strategy, through the Forward Planning and Evaluation Subsecretariat.
- c. **Municipal capacity building.** Recognizing that the municipios are key players in social and urban development policies, the program will help strengthen local capacities for planning, programming, executing and managing physical and social investments. This will include technical assistance, training on strategic topics, and equipment for incorporating project programming and control technologies, cofinanced with the local governments. Municipios will also receive support in designing and preparing "integrated projects" (IPs), with features that will encourage community participation in their definition and design.

2.8 **Component 5: Program evaluation.** Under guidelines from the National Social Development Policy Evaluation Council (CONEVAL)<sup>11</sup> the logical framework for Phase I was amended to establish impact indicators for the program as a whole in terms of beneficiary populations. A multiyear impact assessment will be conducted, taking into account Habitat's integrated approach (see paragraphs 3.19 and 3.20), guided by the indicators in the Logical Framework (see Annex II). This component will finance that evaluation, including: (i) design of the sample of intervention areas; (ii) detailed design of the needed measurement tools; (iii) a baseline survey (early 2008); and (iv) a follow-up survey (late 2010). This evaluation will be the cornerstone of the 2008-2010 evaluation strategy, which will also include specific and operational evaluations which, under current regulations, are to be determined by the UPAPU, the Forward Planning and Evaluation Subsecretariat, and CONEVAL, in coordination with the IDB.

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<sup>11</sup> The General Law on Social Development establishes CONEVAL as a decentralized agency of the federal government, under the coordination of SEDESOL. CONEVAL's main purpose is to track fulfillment of the social objective of programs, targets, and activities under the Social Development Policy and to produce objective data on poverty and the social situation, to improve decision-making. On 30 March 2007 CONEVAL published general guidelines for evaluating federal programs.

## **C. Principal innovations and changes for Phase II**

2.9 Phase II of the program will seek to overcome the constraints encountered in Phase I and to address the challenges indicated above. Various measures will be taken to simplify Habitat execution and make it more effective and comprehensive. These include:

### **1. Operational improvements**

2.10 **The “Integrated Project” (IP) concept**, defined as a set of projects under two or more components that share the same space, are complementary, and contribute to a common objective relating to the development of the geographic area. This way the program can better take advantage of existing synergies among the various interventions needed to address urban poverty.

2.11 **Preparation of an Executive Profile (EP) for each PFA**. With the introduction of the IP, municipios can prepare an EP for the PFA, estimating existing gaps in infrastructure and social services, and investment needs. Those EPs will help the municipios prepare investment plans for major works such as paving and sewer construction.

2.12 **Social services management model**. Based on the findings from the CDC operational evaluation now under way, successful municipal management schemes will be developed to guide local governments in the provision of social services, both within and beyond the CDC, as appropriate. These models will include a methodology for estimating demand for social services and existing gaps in the PFA, as well as recommended operational mechanisms for each type of eligible social project. The methodology will steer resources toward services with the greatest impact on poverty. Financial sustainability mechanisms for the CDCs will also be developed so they can continue operating once the Habitat intervention is over.

### **2. Coordination of the urban poverty strategy**

2.13 Given its multisectoral nature and its targeting method, Habitat has been made responsible for coordinating the UPS (see paragraph 1.6). Under the strategy, 12 federal programs<sup>12</sup> will provide concurrent services through 5 agencies in 81 municipios, within which 107 PFAs have already been identified. While implementation of the strategy is municipal, the fact that Habitat is the coordinator will help to target programs at the poorest PFAs. Through cooperation agreements between SEDESOL and each of the program agencies the latter will give priority to the PFAs, in line with their respective operating rules.

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<sup>12</sup> These will include the SEP’s Quality Schools (PEC), Education for Youth and Adults, and TV and Community Support Technologies programs; the SE’s National Microenterprise Financing Program (PRONAFIM), and FONAES; SEDESOL’s Programa de Estancias infantiles (childcare program), the Landholding Regularization Program, the Housing Expansion and Upgrades Subsidy Program, and the Seniors Registration Program; the SE’s People’s Insurance Program; the SEGOB’s Birth Certificates Program and the Clave Única de Registro de Población (CURP) (personal registration program).

- 2.14 The expansion of the range of interventions for addressing urban poverty in the PFAs will demand of Habitat a greater capacity for interagency coordination, better monitoring systems, and stepped-up internal and external training (see paragraph 2.7 i). This means that public servants at the three levels of government will have to strengthen their capacity to apply the concurrent strategy locally. The introduction of UPS makes it even more necessary to strengthen integral planning for each PFA, as well as the capacity for local design and management of projects (see paragraph 2.7 ii). The program will provide technical support for setting operating targets, and management and evaluation tools for the UPS so that Habitat can consolidate its coordination role. The first step was to hold a workshop of national and international experts in local development strategies to identify the characteristics that will transform the UPS into an operational program.

### **3. Strengthening municipal management**

- 2.15 Recognizing that project execution is largely a responsibility of the municipal governments, Phase II calls for reinforcing the following areas:
- 2.16 **Programming.** Municipios will receive support in developing programming methodologies. The objectives will be: (i) to ensure that local program management incorporates a sustainable territorial perspective in the design, operation and evaluation of development plans; and (ii) to bring greater efficiency to the design of locally managed policies, plans and programs for basic social infrastructure and social development activities. The improved programming processes will also reinforce synergies between social projects, urban planning, and the infrastructure works that the program will finance, and will allow beneficiaries to set priorities for interventions.
- 2.17 Integrated planning will be made operational through preparation of an executive profile for each PFA and of integrated projects. Those profiles will identify all the works to be financed, with a timetable, budget and targets and this will facilitate the monitoring and fulfillment of those targets. All IPs will include activities under the urban environment improvement and the social and community development components. During Phase II, an effort will be made to ensure that all the PFAs with Habitat interventions have at least one integrated project that meets the minimum characteristics established.
- 2.18 In terms of urban planning, the programming challenge is to strengthen municipal capacities to promote orderly and efficient territorial development and to take suitable risk prevention measures. The Habitat agencies (or the municipal offices and institutes designated for this purpose) can assist this effort through technical assistance and financial support. In Phase II, tools and training activities will be designed to strengthen municipal capacities in urban planning.
- 2.19 **Sustainability of Habitat activities and social oversight.** Existing mechanisms of community participation via the municipio will be improved so as to encourage participation in integrated programming and accountability exercises, and to allow beneficiaries to exert social oversight. Municipal capacities to execute and

supervise projects will also be strengthened through a combination of: (i) **specialized technical assistance** in municipal institutional development, and research projects; and (ii) **training and development for municipal public servants** in procurement processes, budget preparation, and works supervision. The rules for preparing technical files for physical and social projects will also be revised, particularly with reference to quantifying their operating and maintenance costs. Municipios will also be supported in their capacity to **systematize, promote and disseminate successful experiments in institutional strengthening**, so these can be replicated.

- 2.20 Technical assistance will be provided for mounting socially and environmentally sustainable projects that combine infrastructure works and conservation activities into integrated projects: for example, integrating bicycle paths into the rehabilitation of creek beds, and/or implementing environmental education programs as part of the activities conducted in the community centers.

**D. Cost and financing**

- 2.21 The total cost of the proposed operation for Phase II is estimated at US\$300 million, divided into (i) US\$150 million from the Bank’s Ordinary Capital Single Currency Facility and (ii) US\$150 million as the Mexican government’s counterpart. Table 2.1 shows a breakdown of program costs by source of financing and category of investment.

**Table 2.1**  
**Costs of the Program to Address Urban Poverty–Phase II (ME-L1019)**  
**(US\$ millions)**

<b>Habitat Program Components</b>	<b>IDB</b>	<b>Local</b>	<b>Total</b>	<b>%</b>
1. Community and Social Development	21.4	21.4	42.8	14.3
2. Improving the Urban Environment	115	115	230	76.7
3. Promoting Urban Development	10	10	20	6.7
4. Program Management Support	1.4	1.5	2.9	1
5. Program Evaluation	2.2	1.5	3.7	1.2
Audit		0.6		0.2
Inspection and supervision	0	0	0	0
<b>Total</b>	<b>150</b>	<b>150</b>	<b>300</b>	<b>100%</b>

**III. IMPLEMENTATION**

**A. Borrower, guarantor, and executing agency**

- 3.1 The borrower will be the United Mexican States, through the Ministry of Finance. The central executing agency will be the Ministry of Social Development (SEDESOL), through the Urban Poverty Programs Unit (UPAPU) of the

Department of Urban Development and Land-Use Planning (SDUOT). The executors (states, municipios, or others) will be involved in program implementation. The financial agent for the program will be Nacional Financiera SNC (NAFIN). A special condition precedent to the first disbursement will be the signature of a mandate contract between the borrower, SEDESOL, and NAFIN.

**B. Program execution, administration, and Operating Regulations**

- 3.2 The program will be executed and administered in the manner described in the Loan Proposal for Phase I (PR-2883).<sup>13</sup> The proposed structure, with a UPAPU in charge of monitoring execution and the technical, budgetary and financial aspects of the program, has proven very effective in Phase I. Participation by the states and municipios has also been effective.
- 3.3 The program will be governed by the current operating rules of Habitat, which are published in Mexico's Official Gazette. Publication of the rules reflects national legislation, which requires the annual approval and publication of operating rules for all programs funded by the federal government. SEDESOL will prepare the rules and review them periodically in consultation with the Bank. These operating rules contain specific guidelines for complying with technical, financial, environmental, and internal control requirements and technical criteria.

**C. Procurement**

- 3.4 Goods and works will be procured in accordance with the Bank policies contained in document GN-2349-7 (Policies for the procurement of goods and works financed by the IDB) and the attached procurement plan. International Competitive Bidding (ICB) will be mandatory for works where the estimated cost exceeds the equivalent of US\$10 million per contract, and for goods where the estimated cost exceeds the equivalent of US\$500,000 per contract. National Competitive Bidding (NCB) will be mandatory for works where the estimated cost exceeds the equivalent of US\$500,000 per contract, and for goods where the estimated cost exceeds the equivalent of US\$100,000 per contract. The shopping method will be used for procurements for amounts below those thresholds. For Components 1, 2, 3, and 4 (iii) of the program, which provide the executing entities with subsidies, the methods set forth in the Public Works and Related Services Act and the Federal Public Sector Procurement, Leasing, and Services Act can be applied, as stipulated in the operating rules for the Habitat program on the procurement of works, goods, and services by executing entities. Those entities may have community

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<sup>13</sup> As indicated in paragraph 3.3 of PR-2883, the SDUOT will be responsible for execution, and will function essentially as a financing window for eligible projects proposed and prepared by eligible state and municipal governments. Once the city and PFA investment plans have been examined by the regional and central authorities, they will be approved for execution. Projects must be approved by the respective State Development Planning Committees (COPLADEs), advisory bodies at the state level that include representatives of federal, state, and municipal agencies and that, among other responsibilities, examine the proposals of all municipios in their respective states, recommend the appropriate state financial contribution, and coordinate state and federal entities in their support of the program.

- involvement and participation by service provider or civil society organizations, and by the governments of the states, Federal District, and municipios. The foregoing is an exception to the methods provided for in Sections II and III of the procurement policies.
- 3.5 Consultants will be selected and contracted in accordance with the Bank policies contained in document GN-2350-7 (Policies for the selection and contracting of consultants financed by the IDB). For purposes of paragraph 2.7 of document GN-2350-7, the shortlist of consultants for contracts under US\$500,000 equivalent may consist entirely of national consultants. The borrower, through the executing agency, can directly select the services of: (i) the Latin American Institute for Educational Communication (ILCE), to communicate and disseminate information and communications technology (ICT) to promote social development; and (ii) the National Properties Administration and Appraisal Institute (INDAABIN) to assess real estate values, in accordance with paragraphs 3.9 to 3.13 of those Policies.
- 3.6 The direct selection of the ILCE is appropriate because the Institute is especially qualified and has valuable experience in successfully providing such services. The ILCE successfully performed such tasks between 2003 and 2006, and it is well placed to carry out the program's distance training activities efficiently. The contracting of the ILCE will also be economically advantageous to the program, given its legal status as an independent nonprofit international agency.<sup>14</sup> Direct selection of INDAABIN is justified because it is a non-profit government agency that is in a singular and exceptional position to provide the assessment services for real estate appraisals under the Habitat program. These two instances of direct contracting in Phase I are justified as an exception to the general rule set forth in paragraph 3.12 of document GN-2350-7.
- 3.7 The borrower, through the executing agency, can select and hire consultants for Components 1, 2, 3, and 4 (iii), using the methods set forth in the Public Works and Related Services Act and the Federal Public Sector Procurement, Leasing, and Services Act, as stipulated in the operating rules for the Habitat program. This constitutes an exception to the methods provided for in Sections II, III, and V of the Policies for selection and contracting of consultants.
- 3.8 The initial procurement plan, which is part of the technical files for the operation, was prepared jointly with SEDESOL and NAFIN. It will be updated annually by SEDESOL, and NAFIN will subsequently review it and send it to the IDB, or if necessary assist SEDESOL in the correct application of IDB procurement policies and the presentation of information in the plan.
- 3.9 The Bank's ex post review of procurement expenditures has been satisfactory, and has verified that procurement has at all times complied with the philosophy and principles governing the Bank's procurement policies and procedures. Consequently, it has been agreed with the Bank's Country Office in Mexico that all

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<sup>14</sup> Belonging to the Organization of American States, with managerial and legal autonomy and its own assets.

inspections and controls by the Bank will be done on an ex post basis, when amounts involved fall below the thresholds for international bidding.

**D. Disbursement procedure and schedule and retroactive financing**

- 3.10 The disbursement procedure agreed for Phase I of the program will be maintained. Given the nature of the program, which involves multiple payments scattered geographically, the average monthly exchange rate based on data from the Bank of Mexico will continue to be used and applied to cumulative investments in the projects and investment categories based on monthly transfers made as of the disbursement date, provided its use does not distort project costs.
- 3.11 The Bank will coordinate its inspection visits with SEDESOL and NAFIN, and will review the status of physical and financial progress and the supporting documentation for project expenditures directly with the executors and with the state offices of SEDESOL.
- 3.12 The executing agency's state offices will maintain a copy of the supporting documents indicated in the current operating rules and operating guidelines for the Habitat program.
- 3.13 Eligible expenditures of up to US\$880,000 incurred in the direct contracting of the ILCE and INDAABIN will be recognized against the Bank's loan resources. The justifications submitted by SEDESOL for those direct contracts were deemed adequate in light of the fact that ILCE and the INDAABIN are a natural continuation of the services provided under Phase I and comply with the conditions described in paragraphs 3.5 and 3.6.
- 3.14 The loan will be disbursed over a period of 36 months.

**E. External audit**

- 3.15 SEDESOL will present audited program financial statements to the Bank within 180 days following the close of the federal government's fiscal year, bearing in mind that a 120-day deadline would not be sufficient for SEDESOL to obtain the financial execution information on Habitat program resources from the states, the Federal District, and the municipios. The annual audit will be performed by a firm of independent auditors acceptable to the Bank, on the basis of terms of reference previously agreed on with the Bank (document AF-400) and Bank requirements (document AF-100 and AF-300). The Ministry of Public Affairs (SFP) will select the firm each year.
- 3.16 The minimum information required for the audits will include the technical annexes and the original technical files for projects financed by the program, the executive profiles, specific agreements to undertake actions, and contracts tendered or negotiated with providers and contractors. The technical files will be maintained as specified in Phase I.



## **F. Monitoring**

- 3.17 SEDESOL will provide semiannual reports to the Bank with information from the SIIPSO covering the following aspects: (i) execution of each component and a breakdown by program modality; (ii) achievement of the objectives and outcomes for each component during the period considered, and all the indicators contained in the first report. This first report, in the form of the Initial Plan pursuant to General Condition 4.01 (d), will contain as a minimum the information contained in the Initial Plan of Phase I, for execution of the components during the first six months.
- 3.18 The program will be reviewed annually by SEDESOL, SHCP, NAFIN, the SFP, and the Bank. These reviews will be based on the program operating rules prepared by the executing agency, the Project Performance Monitoring Report (PPMR), prepared with information from the SIIPSO, the semiannual monitoring reports (see paragraph 3.17) and the external evaluation reports for the period under review.

## **G. Impact and process evaluations**

- 3.19 As part of the 2008-2010 evaluation strategy, the Bank and UPAPU, in coordination with the Forward Planning and Evaluation Subsecretariat and CONEVAL, have decided to perform a comprehensive impact assessment of Habitat, in accordance with terms of reference to be agreed in early 2008. It will include a baseline survey in 2008, and a monitoring round after two years of execution, in 2010. The measurement instruments include a multi-topic household survey, in-depth interviews with the local authorities, urban planning inspections and real estate appraisals, and surveys to measure the availability and quality of the community services supported. These instruments will be interlinked using geographic identification keys. The sample sizes will be adjusted to obtain proper representation of the population under study. The loan contract includes the executing agency's obligation to conduct the baseline survey during the first year of program execution and presentation of the final evaluation report 24 months after the last disbursement.
- 3.20 In order to establish the baseline, the following prior steps will be included: (i) define the evaluation objectives and the indicators to be measured; (ii) update the poverty maps at the block (*manzana*) level on the basis of the 2005 population survey, compared with information from the 2000 census; (iii) design measurement instruments for the 2008 baseline survey; (iv) sample design; (v) define the Habitat intervention universe on the basis of coverage of the first phase and growth projections to 2010; and (vi) prepare terms of reference for the 2008-2010 evaluation.

## **H. Social and environmental impact**

- 3.21 The various types of works and social interventions and the broad geographic coverage of the program require a decentralized approach to environmental monitoring. As with Phase I, this monitoring will focus on compliance with Mexico's **General Law on Ecological Balance and Environmental Protection**,

- which specifies the environmental procedures to be followed according to the environmental risk category of the corresponding intervention. The proposed program will again require compliance with that law, as well as with applicable federal and local legislation, depending on the nature of the projects. Articles 5, 7 and 8 of that law establish the powers of the federal government, the states and the municipios with respect to environmental protection.
- 3.22 The program classified as category “B” finances various kinds of projects, social ones as well as infrastructure and prevention works. The works typically financed are of small scale and low complexity, costing for the most part between US\$25,000 and US\$100,000, and they are not expected to produce any significant adverse environmental impacts. Based on experience with past Habitat projects, no adverse impact is anticipated in terms of the physical environment, nor should there be any major dislocations or social impacts from the interventions.
- 3.23 To verify that this is the case, and to produce recommendations on systems for the comprehensive evaluation and verification of social and environmental processes that could be used in the design and implementation of Phase II, a social and environmental performance characterization was developed for activities financed by the program. This includes: (i) characterization of the projects according to their risk profile or their social and environmental impact, as well as the social and environmental benefits flowing from the interventions; and (ii) systematization of institutional and normative aspects applicable to the activities financed (laws and regulations, licenses or other federal, state and municipal procedures), including aspects relating to local environmental capacities. This characterization was based on a sample of activities financed in seven states, in order to typify the most relevant aspects and characteristics of the analysis. This sample was used to determine the relevance of in-country systems, recognizing that the range of program interventions is very broad and that the works are small-scale.
- 3.24 The characterization found that most program-financed actions were low risk or had little adverse social and environmental impact and that the state and municipal regulatory framework provided oversight tools for works that could have a significant impact. It was also possible, through the sample, to confirm that the format and content of the files largely complied with legal requirements. However, performance of the local environmental control functions is sometimes uneven. In such cases, the program would collaborate with the local environmental entities to establish synergies with their programs and disseminate educational materials on environmental requirements, by type of work, and on preparing environmental technical files. Moreover, the environmental requirements for all projects will be included in the SIIPSO to support their identification and fulfillment.
- 3.25 In order to certify that Phase II investments comply with existing legislation, the program operating rules require that the executing agency for each work and/or action comply with the provisions of the laws on public works and related services, as well as other applicable federal and local standards and regulations. Thus, each project will have a certificate issued by the competent body, including as

appropriate a technical environmental report as part of the executive profile. The executing agency is responsible for fulfilling these obligations.

**I. Risks**

- 3.26 The risks identified in Phase I were adequately mitigated. The risk associated with *coordination of federal agencies and among the three levels of government* was successfully dealt with through an operating mechanism that produced agreements among the parties and resulted in efficient execution. The potential risk of inadequate community participation was also mitigated through local promotional activities.
- 3.27 Phase II does not pose any serious risks. However, to encourage demand for stronger municipal management, competitions will be sponsored to reward the best management practices, and distance training facilities will be offered, in addition to the technical assistance provided directly by SEDESOL.
- 3.28 The fact that combating urban poverty in its different dimensions is a priority represents both a risk and an opportunity for Habitat. The risk is that the efforts of the various levels and agencies of government will not effectively materialize, and the opportunity is that effective coordination can be achieved through the UPS. For this reason, the program calls for specific actions to help the UPS become operational and fulfill its coordination function. As well, additional technical assistance has been offered to the federal government to consolidate the UPS.

## MULTIPHASE PROGRAM: ADDRESSING URBAN POVERTY - PHASE I

(ME-0255)

### EXECUTIVE SUMMARY

**Borrower:** United Mexican States

**Financial agent:** Nacional Financiera, S.N.C. (NAFIN)

**Executing agency:** Department of Social Development (SEDESOL)

		<b>Phase I (3 years)</b>	<b>Phase II (3 years)</b>
<b>Amount and source:</b>	IDB (OC):	US\$350 million	US\$350 million
	Local:	<u>US\$150 million</u>	<u>US\$150 million</u>
	Total:	US\$500 million	US\$500 million

**Financial terms and conditions:** The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the Finance Department's semiannual recommendation. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1%, of the loan amount.\*

Amortization period:	25 years
Grace period:	3 years
Disbursement period:	3 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75% on undisbursed balance
Currency:	U.S. dollars from the Single Currency Facility

\* In no case will the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% of the loan amount divided by the number of six-month periods in the original disbursement period.

**Objectives:** The principal objective is to support the Mexican government's efforts to address poverty in the country and improve the living conditions of the marginalized urban population.

The specific objectives are to: (i) expand households' access to social services that will make them less vulnerable, with emphasis on specific groups (children, young people, the elderly, women heads of household); and (ii) increase infrastructure, equipment, and basic service coverage in the peri-urban areas and enhance the value of the target households' assets.

**Rationale for a multiphase program:**

The proposed program will be executed over a six-year period, in two three-year phases, and will involve an estimated US\$1 billion, of which the Bank will finance US\$350 million and the Government of Mexico, US\$150 million, for each phase. This document proposes approval of the multiphase program concept and of a loan for Phase I. This modality, already proven satisfactory in various earlier operations financed by the Bank in different social sectors in Mexico (loans 983/OC-ME, 1256/OC-ME, 1383/OC-ME, 1384/OC-ME, and 1388/OC-ME), is considered the most appropriate mechanism for this type of program and is justified on the basis of the scope and complexity of the spontaneous settlement problem and given the need for an ongoing effort of targeted interventions to have significant impact on urban poverty reduction.

During Phase I, a comprehensive intervention model for barrio improvement that includes social development dimensions will be implemented and disseminated. Activities under Phase II will focus on consolidating and expanding the coverage of the initiatives included in Phase I, after incorporating the adjustments stemming from the analysis of data produced by the monitoring and operational and impact evaluation system under Phase I. Processing and approval of Phase II will be conditional upon completion of the activities detailed in chapter III, Program Execution (see paragraph 3.22).

**Description:**

To meet its objectives, the project will support **Habitat** (US\$500 million). Comprehensive multisector actions will be financed that aim to support poor families in the marginal barrios of the country's main cities. Such actions include building basic infrastructure works to bring the barrios up to a minimum standard of urbanization, as well as providing selected social services sized to address the priority needs of the families living in those barrios. The package of physical and social investments seeks to improve the families' health and safety, increase the value of their assets, and have an impact on quality of life in the targeted barrios. It also aims to consolidate a national model of comprehensive action in peri-urban areas that manages to target government efforts on effective and sustainable actions. The program impact evaluation round will also be financed.

The barrios or priority focus areas [zonas de atención prioritaria, or ZAPs] in these cities that are eligible under the first phase of the program are those in which over 50% of the population is poor.

**The Bank's country and sector strategy:**

The proposed program will focus on modernizing the social sector and reducing poverty, to which end the Bank has supported the development and implementation of programs that subsidize social demand and programs to reduce poverty. This strategy is consistent with the 2001-2006 National Development Plan, the basic strategic document that encompasses Mexico's social policy and gave rise to the 2001-2006 National Urban Development and Land Use Planning Program (PNDUOT) and the country's social development strategy for reducing poverty, better known as the "Contigo" ["With You"] strategy.

**Environmental and social review:**

At its meeting 36-03 of 3 October 2003, the Committee on Environment and Social Impact (CESI) recommended making explicit reference to the Bank's Operational Policies OP-710 and OP-745, the relationship between the program and the federative entities, and the connection between the Operating Rules for the Habitat program and the Mexican government's Ecological Balance and Environmental Protection Act (paragraphs 4.33-4.35).

**Benefits:**

During Phase I, Habitat will benefit at least 200,000 households directly and 400,000 households indirectly, located in poor barrios in all the states, with water, sewerage, and drainage services, road access, trash pickup, public squares and recreation areas, etc. This will improve both their asset base and their chances of gaining access to credit and improving their quality of life in general. The program will also contribute through specific social programs to reduce the risks associated with poverty, in the most vulnerable families and among children, adolescents, and women heads of household.

The targeting system through the Community Development-Habitat activities will ensure that the beneficiaries of the interventions are urban households located in urban polygons with a high incidence of poverty. The comprehensive actions in the areas of urban infrastructure and social services will generate improvements in the living conditions of this population segment, including: (i) a drop in the deficit of access to basic urban services; (ii) improved environmental sanitation conditions; and (iii) strengthening of the community.

<b>Risks:</b>	<p><b>Coordination of actions for execution of Habitat.</b> This initiative stems from the combination of various operational modalities already in use at SEDESOL. Coordinating these modalities in a single project with a comprehensive approach is a challenge since it will require adapting its systems and previously used methodologies. The Bank, through a technical cooperation operation entitled “Consolidation of Habitat’s Activities” (ATN/NS-8386-ME), is supporting the design of new operating procedures and the implementation of a management system that will facilitate this internal integration.</p> <p><b>Coordination among the three levels of government (federal, state, and municipal).</b> Program execution will require close collaboration among the three levels of government. This could be a risk factor in terms of the program running smoothly. To mitigate this risk, SEDESOL and the local governments have signed coordination agreements for social and human development that clearly stipulate the roles and responsibilities of all the parties.</p> <p><b>Community participation.</b> Another risk factor is the fact that the smooth progress of the interventions depends on the community’s response. To mitigate this risk, the community organization subcomponent will finance specific activities to ensure that the interventions address the beneficiaries’ objectives and priorities and contribute to keeping the community organized and involved—directly or indirectly—in the upkeep of investments and services.</p>
<b>Special contractual clauses:</b>	<p>The first disbursement of funds under the program will be subject to fulfillment, and the Bank’s approval, of the following condition:</p> <p>(i) The executing agency will present evidence to the Bank’s satisfaction that the coordination unit responsible for execution of program activities has been set up (paragraph 3.2).</p>
<b>Poverty-targeting and social sector classification:</b>	<p>This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank’s Eighth Replenishment (document AB-1704). It also qualifies as a poverty targeted investment (PTI) (see paragraphs 4.31 and 4.32). This PTI classification is automatic for barrio improvement projects</p>
<b>Coordination with other official development institutions:</b>	<p>The Bank has supported the development and implementation of programs that subsidize social demand and programs to reduce poverty. In this respect, the Bank is coordinating and complementing its activities with those of the World Bank, which has been financing programs for the supply of education and health services.</p>

**Exceptions to Bank policy:**

See Procurement.

**Procurement:**

The Bank's policies and procedures will be used in the procurement of goods, services, and works.

International competitive bidding will be used for goods and related services where the value is US\$350,000 or more, and for works valued at US\$5 million or more. International competitive bidding or international open calls for proposals will be used for consulting services where the estimated value is US\$200,000 or more.

The contracting of consulting services valued at US\$100,000 or less will be governed, in principle, by national legislation, which is compatible with the Bank's policies (see paragraph 3.14).

**Recognition of expenses:**

Eligible expenditures incurred during the 12 months prior to program approval will be recognized against program resources (see paragraph 3.16).



**MULTIPHASE PROGRAM TO ADDRESS URBAN POVERTY, PHASE II (ME-L1019)**  
**LOGICAL FRAMEWORK**

Narrative Summary	Indicators	Means of Verification	Assumptions
<p><b>Goal</b></p> <p>To support the Mexican government's efforts to address poverty in the country, by improving living conditions for the urban fringe population where poverty is heavily concentrated.</p>	<p>1. A 10% improvement in CONAPO's<sup>1</sup> absolute poverty index for priority focus areas (PFAs) in Habitat-served urban polygons between 2005 and 2010.</p>	<p>2005 Population and Housing Survey and 2010 General Population and Housing Census.</p>	<p>Economic growth is maintained and at least the same annual federal budget is maintained for the Habitat program.</p>
<p><b>Purpose<sup>2</sup></b></p> <p>To expand the coverage of basic services in urban fringe areas where poverty is heavily concentrated and reduce the vulnerability and enhance the social integration of residents in those areas.</p>	<p>2. A statistically significant increase in property values per m2 on beneficiary land in project PFAs, compared to the control group for those areas, by the end of the third year</p> <p>3. A statistically significant increase in the availability index for basic urban services and facilities (water, sewage, paving, lighting, sidewalks and electricity) in project PFAs, compared to the control group, by the end of the third year.</p> <p>4. A statistically significant decline in the lack of access to childcare services, youth support, recreational activities, training programs for income generation or replacement, and health risk prevention in project PFAs, compared to the control group, by the end of the third year.</p>	<p>Property evaluation surveys.</p> <p>Urban amenities inspection for evaluating Habitat and multi-topic household survey for evaluating Habitat.</p> <p>Multi-topic household survey for evaluating Habitat.</p>	<p>The three levels of government (federal, state and municipal) maintain their commitment to addressing urban marginalization and to working together.</p> <p>There is a continuing high degree of intra- and interagency (federal, state, municipal) coordination</p>

<sup>1</sup> Estimated based on the basic geographic areas in the PFAs. The results of the 2010 population census, which are the primary source of information for estimated poverty indices, will be available in 2011 or 2012.

<sup>2</sup> Once the 2008 baseline survey is in hand, it will be possible to establish the benchmark values on which the program will have an impact, as well as the proposed targets to be met. The Logical Framework and the PPMR will be updated with the results from the baseline.

Narrative Summary	Indicators	Means of Verification	Assumptions
	5. A statistically significant improvement in families' access to UPS programs in the 107 PFAs where UPS has been introduced, compared to the Habitat PFAs without UPS, by the end of the third year.	Administrative records on funding and coverage of UPS programs.	for integrated execution of each component.  There are no major natural disasters.
<b>Components</b>			
<i>Component 1: Social and Community Development</i>			
Generation and strengthening of income earning capacities and opportunities for the poor; creation of social services and community development.	<p>6. 70% of Community Development Centers (CDCs) financed by the program in 2008 are operating sustainably two years after they receive support.</p> <p>7. A statistically significant increase in the number of people who use the CDCs, by the end of the third year.</p> <p>8. A statistically significant increase in CDC users' perception of the relevance of the services the centers provide to meeting their needs, by the end of the third year.</p> <p>9. At least 30% of working-age people who received training in the CDCs, workshops or trade schools are applying what they learned in remunerated work, by the end of the third year.</p> <p>10. 20% of people have expanded their social networks by frequenting community services, by the end of the third year.</p>	<p>Interviews with local authorities and the SIIPSO (the system for monitoring and managing Habitat).</p> <p>User surveys in buildings that received support from Habitat and multi-topic household survey for evaluating Habitat.</p> <p>User surveys in buildings that received support from Habitat and multi-topic household survey for evaluating Habitat.</p> <p>User surveys in buildings that received support from Habitat and multi-topic household survey for evaluating Habitat.</p> <p>User surveys in buildings that received support from Habitat.</p>	<p>Communities participate actively in identifying community needs and selecting works and actions to support and, if appropriate, execute and monitor.</p> <p>The state or municipal governments effectively identify, on a timely basis, community needs, prepare works projects and actions relevant to the program's objectives, and verify that projects are being implemented effectively.</p>

Narrative Summary	Indicators	Means of Verification	Assumptions
<b><i>Component 2: Improving the Urban Environment</i></b>			
Expand basic urban infrastructure and services and urban amenities in the PFAs; improve the ecological setting; reduce vulnerability for people living in at-risk areas and buildings; and in general contribute to conserving and enhancing the urban image.	11. 2.5% increase in the availability of basic services (water, drainage, electricity) in households in the PFAs, by the end of the third year. 12. 100% achievement of Habitat program targets for financing urban amenities (paving, street lighting, curbs, and sidewalks), by the end of the third year. 13. 30% of urban municipios at risk for natural events have performed works to mitigate their risks, by the end of the third year.	Internal planning documents and execution reports.  Internal planning documents and execution reports.  Internal planning documents and execution reports.	Communities participate actively in identifying community needs and selecting works and actions to support and, if appropriate, execute and monitor.  The state or municipal governments effectively identify, on a timely basis, community needs, prepare works projects and actions relevant to the program's objectives, and verify that projects are being implemented effectively.
<b><i>Component 3: Promotion of Urban Development</i></b>			
Support local bodies and promote interagency coordination for urban development.	14. 90% of municipios that request a Habitat agency or funds for a similar institution have made progress in urban planning after two years of execution, and 100% by the end of the third year.	SIIPSO. Urban amenities inspection, and interviews with local authorities.	The state and/or municipal governments request training to improve their management tools and methodologies.

Narrative Summary	Indicators	Means of Verification	Assumptions
<b><i>Component 4: Management support</i></b>			
<p>(a) strengthen the technical capacity of municipios, especially for Habitat's local activities;</p> <p>(b) improve Habitat's management tools and methodologies, through SEDESOL; and</p> <p>(c) develop and monitor implementation of the urban poverty strategy.</p>	<p>15. 50% of municipios participating in Habitat Phase II have prepared integrated plans for program interventions in each PFA, estimating gaps in infrastructure, urban amenities, ecological improvements and social services, by the end of the third year.</p> <p>16. 70% of municipios participating in the coordination agreements are receiving technical support for running the program through the Urban Poverty Programs Unit (UPAPU), as of the first year.</p> <p>17. 60% of municipios participating in the coordination agreements have identified households in high-risk areas and have a plan to mitigate the risks or to relocate the families, by the end of the third year.</p> <p>18. A 2008-2010 action plan is in place for coordinating programs in the UPS and coverage targets and budget estimates, by the beginning of 2008.</p> <p>19. Coordination agreements are in place between federal agencies for achieving the UPS targets and budget commitments, by the beginning of 2008.</p> <p>20. A single form is established for joining the UPS roster of beneficiaries, to channel beneficiaries to programs that could provide support and track the benefits they receive, available in early 2008.</p>	<p>SIIPSO: Habitat monitoring and management system.</p> <p>Internal planning documents and execution reports.</p> <p>Internal planning documents and execution reports.</p> <p>Internal planning document and semiannual execution reports.</p> <p>Agreements signed.</p> <p>Internal planning documents and execution reports.</p>	<p>The state and/or municipal governments request training and financing to improve their Habitat management tools and methodologies.</p>

Narrative Summary	Indicators	Means of Verification	Assumptions
<i>Component 5: Program Impact Evaluation</i>			
	21. The program has a 2008-2010 evaluation system, with a methodology that includes specification of control groups, a baseline, and a panel survey for measuring indicators obtained from households, local authorities, urban amenities inspection, and property appraisal.	Methodological document for evaluation of Habitat. 2008 Survey report. 2010 Impact evaluation report Documentation, databases and results summaries available at the program's Internet portal.	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION \_\_/07

Mexico. Loan \_\_\_\_/OC-ME to the United Mexican States  
Multiphase Program to Address Urban Poverty, Phase II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the United Mexican States, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a multiphase program to address urban poverty, phase II. Such financing will be for the amount of up to US\$150,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Executive Summary of the Loan Proposal.

(Adopted on \_\_ \_\_\_\_\_ 2007)

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