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IMPLEMENTATION COMPLETION REPORT

ON A

LOAN

IN THE AMOUNT OF US $100.00 MILLION

TO THE

UNITED MEXICAN STATES

FOR AN

AFFORDABLE HOUSING AND URBAN POVERTY

SECTOR ADJUSTMENT LOAN
(Loan 7229-ME)

June 28, 2005

Colombia and Mexico Country Management Unit
Finance, Private Sector and Infrastructure Department
Latin America and the Caribbean Regional Office

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CURRENCY EQUIVALENTS

(Exchange Rate Effective)

Currency Unit = Mexican Peso
US$ = MX$
US$1.00 = MX$ 10.98

FISCAL YEAR
January 1 - December 31

ABBREVIATIONS AND ACRONYMS

BANSEFI	Bank of National Savings and Financial Services
CONAFOVI	National Housing Commission
CONAVI	National Council of Housing
EA	Environmental Assessment
FONAEVI	National Fund for Low-Cost Housing
FONHAPO	Low-Income Housing Fund
FOVI	Financial Housing Aid Fund
FOVIM	Housing Fund for Teachers Union
FOVISSSTE	Housing Fund for the Social Security Services Institute of the Public Workers
GDP	Gross Domestic Product
GOM	Government of Mexico
HUSAL	Programmatic Affordable Housing and Urban Poverty Sector Adjustment Loan
HUTAL	Housing and Urban Technical Assistance Loan
INFONAVIT	Institute for National Housing Fund for Public Workers
ISSFAM	Institute of Social Security for the Mexican Armed Forces
LICONSA	Industrial Milk Conasupo
NHDP	National Housing Development Policy
OREVIS	State Housing Agencies
PET	Temporary Employment Program
PROSAVI	Special Program for Housing Credit and Subsidies

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RMBS	Residential Mortgage Backed Securities
SEA	Strategic Environmental Assessment
SEDESOL	Secretariat of Social Development
SHCP	Secretariat of the Finance and Public Credit
SHF	Federal Mortgage Corporation
SOFOLES	Financing Societies with Limited Purposes
UDI	Investment Unit
VIVAH	Savings and Subsidies Program for Housing
VIVRURAL	Rural Housing Program

MEXICO
AFFORDABLE HOUSING AND URBAN POVERTY
SECTOR ADJUSTMENT LOAN

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Table 1 – Summary Lexicon of Affordable Housing and Urban Development in Mexico

BANSEFI. This federal institution was created in 2001 in order to promote household savings, help popular finance institutions adjust and prosper under the new Law for Popular Savings and Credit that phases in requirements between 2001 and 2004, and coordinate government support to financial institutions that focus on serving low/moderate-income households ("popular financial institutions").

CONAFOVI. Formed in 2001, this federal institution - a dependency of SEDESOL that also reports to the President – develops housing policy and coordinates national housing institutions, particularly the federal housing institutions (SHF and FONHAPO), but also INFONAVIT and FOVISSSTE.

CONAVI. Created under the same presidential decree as that of CONAFOVI , this organization serves as a forum for public and private-sector input into housing policy and programs, and is managed by and reports to CONAFOVI.

CORETT. A dependency of SEDESOL, this organization has lead responsibility for regularizing informally-urbanized ejidos, and has operated on a massive scale. The process involves purchase of ejido land by the federal government (expropriation), regularizing title, and sale to the existing occupants.

Ejido land. Created by Article 27 of the Mexican Constitution, this form of communal property (often termed "social land") was intended to protect rural farming communities and is regulated by a complex set of federal laws and institutions. With urbanization, two-thirds of the land on the fringe of Mexico's cities now consists of ejidos and constitutes the main source of developable parcels for new housing.

FONHAPO. Historically, this institution has served as the federal government's main support to low-income housing. Poor repayment on below market-rate loans made by FONHAPO to state and local housing institutes that on-lent these funds to low-income households led to this organization's near bankruptcy, from which it has now recovered. A presidential decree has given the organization – along with FONAEVI – the mandate to develop a unified housing subsidy system. Currently, FONHAPO's main program is Tu Casa.

FONAEVI. A division of FONHAPO, this entity will receive, account for, and disburse funds under the unified housing subsidy system, and currently performs this function for Tu Casa.

FOVI. FOVI had the mandate to develop market-rate mortgage finance as a second-tier institution until the creation of SHF in 2002, which has assumed this role. FOVI continues as a trust within SHF with a number of specific functions mainly related to covering liabilities created during its former lending operation.

FOVISSSTE. This institution gets funding from a compulsory contribution of 5% of the salary of federal public-sector workers. It then uses these resources to extend mortgage finance for housing at below-market interest rates graduated to favor lower-income households. FOVISSSTE accounts for around 14% of all mortgage finance. In addition to home lending, FOVISSSTE forms part of the pension fund for its contributing workers.

INFONAVIT. Governed by representatives of formally-employed workers, employers, and government, this institution gets funding from a governed compulsory contribution of 5% of the salary of private-formal sector workers and applies these monies to extend mortgage finance for housing at below-market interest rates graduated to favor lower-income households. INFONAVIT accounts for around 60% of all mortgage finance. In addition to home lending, INFONAVIT forms part of the pension system for its contributing workers.

Low-income household. A household earning 3 minimum wages (currently US$ 375 per month) and below.

Minimum Wage. A measure used for social programs including housing programs. Currently, one minimum wage is approximately US$ 125 per month.

Moderate-income household. A household earning above 3 minimum wages to 6 minimum wages (currently US$ 375 to US$ 655 per month).

Prosavi. A subsidy program started by FOVI and now operated by FONHAPO that provides an upfront grant (currently, about US$ 5,000). Households earning 4 to 6 minimum wages join this grant with a mortgage loan (currently from SOFOLES that receive their funding from SHF and that channel the Prosavi grant to specific projects) and a down payment in order to purchase an expandable unit (around 40 m2; price: US$ 13,900) built by developers.

SEDESOL. The Social Development Secretariat holds overall responsibility for government action in urban development.

SHF. Created in 2002 as the successor to FOVI, the Federal Mortgage Society enjoys backing of the faith and credit of federal government for 12 years in order to lead the development of primary and secondary market-rate home lending. SHF operates as a second tier-finance institution that provides liquidity and guarantees to first-tier lenders (currently, mainly the SOFOLES). SHF accounts for around 11% of total mortgage finance.

SOFOLES Hipotecarias. Following the withdrawal of banks in 1995, these specialized lenders have become Mexico's main source of private home lending. These institutions can make loans and raise debt on capital markets, but cannot accept deposits from the public.

Tu Casa (formerly "**Vivah**"). A subsidy program operated by FONHAPO that delivers a federal grant (currently about US$ 3,000) that state and local governments must match – typically with a serviced lot. The local government contracts the construction of a basic unit (up to 30 m2) that households earning 2.5 minimum wages and below purchase by making a down payment and, sometimes, their self-help labor in the construction.

Simplified Implementation Completion Report
For Programmatic Development Policy Lending Operations

Operation ID: **P070371**	*Operation Name:* **Affordable Housing and Urban Poverty Programmatic Sector Adjustment Loan**
Team Leaders: **Anna Wellenstein, Bruce Ferguson, Abhas Kumar Jha**	*TL Unit:* **LCSFU**
	Report Date: June 28, 2005

1. Program Data

Name:	**Affordable Housing and Urban Poverty Programmatic Sector Adjustment Loan**	*L/C Number:*	**7229-ME**
Country/Department:	**MEXICO**	*Region:*	**Latin America and the Caribbean Region**
Sector/subsector:	**Other social service (35%), Housing fin & realty (25%), Central Govt Admin (20%), Sub-Natl Govt Admin (10%), Law and Justice (10%)**		
Theme:	**Access to Urban Services and Housing (P), Municipal finance (P), Personal and property rights (P), Poverty Strategy, analysis and monitoring (S), Other public sector governance (S)**		

KEY DATES

	Original	*Revised/Actual*
PCD/PD:	**08/21/2000**	**08/21/2000**
Appraisal:	**02/16/2004**	**02/17/2004**
Approval:	**06/08/2004**	**06/08/2004**
Effective:	**12/17/2004**	**12/17/2004**
Closing:	**12/31/2004**	**12/31/2004**

Borrower/Implementing Agency:	**United Mexican States/CONAFOVI, SHF, SEDESOL**
Other Partners:	

STAFF	**Current**		**At Appraisal**
Vice President:	**Pamela Cox**		**David de Ferranti**
Country Director:	**Isabel Guerrero**		**Isabel Guerrero**
Sector Manager:	**John Henry Stein**		**John Henry Stein**
Team Leader at ICR:	**Abhas Kumar Jha**		
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2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome:	**S**
Sustainability:	**L**
Institutional Development Impact:	**SU**
Bank Performance:	**S**
Borrower Performance:	**S**

	QAG (if available)	**ICR**
Quality at Entry:		**S**
Operation at Risk at Any Time:	**NO**	

3. Program Description

The goal of the Affordable Housing and Urban Poverty Programmatic Sector Adjustment Loan (HUSAL) is to support the Government's efforts to improve the living conditions of the poor and strengthen access of low-income people to real assets, notably housing and serviced land. The Program's objectives are listed below:

- Develop a sound national policy and institutional framework for housing and urban development;
- 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;
- Strengthen the housing credit and savings systems, and move these systems down-market;
- Strengthen urban real property registries and rights;
- Increase the supply of urban land and access by the poor and improve this market's function;
- Coordinate physical and social investments to systematically upgrading poor neighborhoods; and
- Better prevent and manage the impacts of natural disasters.

The HUSAL Program was structured to support a subset of the GoM's medium-term reform agenda through three programmatic sector adjustment loans HUSAL I, II, III planned to be disbursed in 2004, 2005 and 2006 respectively (depending on the pace of reform implementation) and an accompanying technical assistance loan (HUTAL). The Program's policy matrix was structured to include actions in seven policy areas, each responding to one of the Program's objective, plus a macroeconomic monitoring element. Table 1 below describes the Program's medium term objective, supported by the three Bank loans. The specific set of actions to be accomplished by each loan, and the objectives and accompanying HUTAL actions are included in the detailed policy matrix in Annex 1 (key actions associated with HUSAL II and III are presented in bold).

HUSAL: Medium Term Program Outcomes		
Policy Area	**Implementing Agency**	**Expected outcome by component**
1.Macroeconomic Framework	SHCP	• Macroeconomic stability supports achievement of program objectives
2. National Housing Policy and Institutional Framework	CONAFOVI	• National housing policy established, along with supporting institutional framework in order to reach the Government's overall goal of producing 750,000 new housing solutions per year by 2006 • States and localities increasingly subsidize housing through grants rather than below-market-rate loans • Strategy document developed for rationalization of role of INFONAVIT
3. Housing Subsidies	CONAFOVI	• Federal housing subsidies unified • Greater equity, efficiency, fiscal sustainability, & leveraging of credit and household savings demonstrated by federal housing system • Beneficiary selection system widely used by housing agencies to register and screen subsidy applicants
4. Housing Credit and Household Savings	SHF	• Greater funding, lending, affordability & down-market penetration demonstrated by the housing finance system • Differences in effective interest rates among mortgage lenders decrease • Loans increasingly accompanied by home counseling • Housing and mortgage risk data used by private-sector • Access increased of low-moderate-income households to home credit for low-cost housing solutions • Greater share of low-moderate-income families enrolled in formal-sector savings programs or with savings accounts
5. Urban Real Property Registries and Rights	CONAFOVI	• Time required to register a mortgage lien in pilot states reduced substantially
6. National Urban Policy, Slum Upgrading and Institutional Strengthening	SEDESOL	• National urban policy established, along with supporting institutional framework • Increased efficiency of slum upgrading under Habitat as measured by greater community participation & investment planning, and improved sequencing of investment.
7. Low and Moderate Income Land Development	SEDESOL	• Costs and time required for land development reduced. • Increased scale of and private-sector involvement in low-moderate-income land development
8. Disaster Prevention and Management	SEDESOL	• Vulnerability to natural disaster events is reduced significantly in Mexico's major cities

The first operation, **HUSAL I,** was designed to include the necessary actions as a set of first steps to facilitate the implementation of policies, plans and instruments in a selective and flexible manner, in order to move Mexico closer to achieving the Program's medium term objectives and outcomes.

4. Achievement of Objectives and Outputs

Prior to board approval the GoM completed the following key actions associated to HUSAL I in the policy matrix. These are outlined below (in italics) for each component.

A. Macroeconomic Framework.

Prior Action:

- *Maintenance of sound macroeconomic framework consistent with policy objectives and programs described in the Letter of Development Policy"*

This component is rated **Satisfactory.** The GoM remained committed to macroeconomic stability during 2004. Policy continues its focus on price stability as a precondition to economic growth coupled with tight fiscal policy (year to year inflation in 2004 was 4.7%). The gradual decline in inflation over the past years has contributed to a substantial decrease in domestic market interest rates. Mortgage interest rates (nominal) declined from an average of 15% in 2004 for a 25 year mortgage, to 12% in early 2005. A number of reform measures taken over the last few years has resulted in the impressive growth of the structured finance sector in Mexico including residential mortgage backed securities (RMBS) and in 2004 established the country as the leading market in Latin America for the first time.[1] In 2004 the market experienced public local and cross-border transactions totaling approximately 111.1 billion Mexican pesos (MX$; approximately US$9.9 billion), of which about 30% were Residential Mortgage-Backed Securities (RMBS).[2]

B. National Housing Policy and Institutional Framework

Prior Actions:

- *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.*
- *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; and FONAEVI received, accounts for, and disburses housing subsidy funds.*
- *Government has completed an environmental assessment (EA) of the housing sector.*

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[1] e.g the new Mexican insolvency statute and the amendments to the laws governing trusts provided clarity on true sale and non-consolidation principles (2000), the new Mexican insolvency statute and the amendments to the laws governing trusts provided clarity on true sale and non-consolidation principles amendments to securities laws and regulations were enacted to incorporate new types of securities and to accommodate more streamlined structures for asset securitization (2001), the amendments to securities regulations to address fundamental issues such as disclosure and governance (2003)

[2] http://www2.standardandpoors.com/servlet/Satellite?pagename=
sp/sp_article/ArticleTemplate&c=sp_article&cid=1115667040135&newsletter=Y

This component is rated **Satisfactory** based on the following results:

National Housing Development Policy (NHDP). The NHDP addressed the lack of coordination in the housing sector identified in project preparation. Since its publication, CONAFOVI has been the agency responsible for monitoring results, following-up on the agreed sector goals and providing information to the general public. As a result, transparency in the sector has been strengthened. The agency's website (http://www.conafovi.gob.mx/) provides bimonthly information on loans and subsidies granted by agency and program by geographic area. In addition, an on-line database provides historical series for some housing variables. As a forthcoming step to enhance the quality of the information provided by CONAFOVI, the sector could benefit from expanding the quantity and quality of variables reported; from the existing data on number and total value of the loans to incorporate real and financial data. This could facilitate the formulation of policies and the evaluation of existing programs.

Institutional Framework. As mentioned, previous to the institutional framework supported by HUSAL, no agency existed with the responsibility for housing sector policy. To address this issue, the GoM undertook a much needed institutional reform to harmonize and define the roles of several housing agencies.

CONAFOVI, as the overall sector coordinator and policy body has been at the centre of the policy sector reform. CONAFOVI has successfully managed the coordination of the National Plan with most of the 32 states through: (i) creation of State Housing Councils, (ii) subscribing co-financing agreements for the modernization of registries (iii) implementation of programs to reduce indirect costs associated with construction and titling, and (iv) dissemination of best-practice information on building standards and titling documentation. As a policy body, the government mandate given to CONAFOVI envisages the agency setting the agenda and pace of the ambitious housing policy reform in Mexico across the National Housing Institutions (ONAVIS). After a strong start with the preparation of the National Plan, the agency's capacity to mandate change across the different institutions involved has been hindered, partially due to:

(i) ONAVIS are not formally accountable to CONAFOVI. This limits the agency's ability to enforce agreements reached with other sector entities. SHF is a development bank and reports to SHCP, the Central Bank and the Banking Commission. FONHAPO officially reports to SEDESOL, but in practice functions more or less autonomously. For the case of INFONAVIT and FOVISSSTE, their large market share (pension fund/housing lender) and their independency from public policy and budgetary management limits CONAFOVI's room for driving reform.

(ii) Lack of an adequate sector data to conduct an in-depth analysis and evaluate sector performance, coupled with the lack of a core team of technical specialists within CONAFOVI limits CONAFOVI's ability to promote reform in the sector in the short term.

SHF was created in 2001 to serve as a catalyst in the development of the primary and secondary mortgage market in Mexico. It provides long term funding to financial intermediaries and hedges the inherent interest rate risk. SHF cannot lend directly to the public and its role as second tier bank for mortgage lenders is to cease by 2009, as SHF establishes itself in the provision of mortgage insurance, timely payment guarantees on bonds and a cover against real minimum wage depreciation (to allow homeowners to have payments linked to minimum wage inflation). One of SHF's primary objectives is to facilitate the flow of long-term investor capital to the housing

industry through securitization. Since 1996 under FOVI and SHF Mexican SOFOLES have lent about US$ 6.1 billion in residential loans with a delinquency of less than 2.5%.

FONAEVI / FONHAPO. The NHDP established FONAEVI as the financial agent to manage federal subsidy funds for the housing programs. During 2004 the GoM channeled through FONAEVI MX$ 1,600 millions to be applied to housing subsidies. FOHNAPO as the agency in charge of operating this fund has been responsible for the operation of several direct lending and several second-tier programs and the Tu Casa housing subsidy program. In addition, in 2004 SHF transferred the operation of the PROSAVI subsidy program to FONHAPO. Further work remains to be done regarding the institutional reengineering of FONHAPO as described in the NHDP in order to strengthen the agency's capacity to design, implement and evaluate housing subsidy programs.

Environmental Assessment. The environmental assessment completed by CONAFOVI and supported by HUSAL I provided the stepping stone to support environmental reforms in the sector. To continue the work in this area, CONAFOVI created a working group within the agency to prepare "green sector guidelines" to be published during 2005 and distributed by the agency as sector best-practice. CONAFOVI is also preparing three pilot projects to assess the different alternatives to green housing developments. It is expected that HUSAL II will build upon this results towards implementation of an action plan for environmental reforms in the housing sector.

C. Housing Subsidies

Prior Actions:

- *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.*
- *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.*
- *FONHAPO has established a database* of beneficiaries of Tu Casa/Vivah.

This component is rated **Unsatisfactory.** Completed government actions on subsidy policy, the performance of the working group and the quality and utilization of the beneficiary data base have been insufficient to support reform in the direction of the final Program outcomes.

FONHAPO/FONAEVI mandate. The national sector plan mandated FONHAPO to administer both upfront housing subsidy program - Tu Casa and PROSAVI - as a first step towards achieving a unified housing subsidy program with improved equity and progressivity. Efforts to support these programs have not had the expected results. The number of PROSAVI subsidies decreased to 9800 in 2004 due mostly to administrative delays. The number of direct subsidies delivered through Tu Casa decreased from 145,000 in 2003 to 122,000 in 2004. Although Tu Casa has not been subject to an evaluation, several reasons could have contributed to this decline, including: (i) late publication of the program rules; rules were published in May for the 2004 fiscal year, (ii) rigidity of the program rules and lack of differentiation of program requirements for different income segments within the overall target group, and (iii) high opportunity cost for local housing counterparts, as local housing institutes have to contribute a loan or a grant for a serviced lot.

FONHAPO's new mandate was to be a first step towards later reforms to harmonize the federal housing subsidy system. To achieve this goal, further actions under HUSAL include FONHAPO withdrawing from direct lending, (i) decreasing the subsidy amount of both federal and state/local government, and (ii) eliminating double-dipping, amongst other reforms. No steps have been taken in this direction.

An important element hindering the sector's ability to reform is the lack of a reliable and comprehensive housing database and a rigorous and independent subsidy evaluation mechanism to adequate subsidy programs to demand. Although the current policy matrix does not include this action under HUSAL II, the second operation could address this situation to support reform in this component.

Subsidy working group. In January 2004 a group of Mexican officials from CONAFOVI and SHF attended a subsidy seminar held at the Bank. This was the first unofficial meeting of a working group that was later formalized by CONAFOVI in April 2004. The group members included three officials from CONAFOVI and three from SHF with the mandate to consolidate and refine the existing subsidy programs. Unfortunately, by December 2004 there is no record of the later sessions held after that first seminar meeting. The leadership in this group was lost with a change in key government officials soon after its creation. Also the lack of clear objectives made continuity and agreements difficult to reach. The mechanism of a working group has the advantage of creating consensus and building ownership amongst institutions prior to reform, such outcome requires that participants from all main agencies that operate subsidy schemes should be included and that a clear working agenda for decision making guides the deliberations. As a consequence, no progress was made on the unification of the subsidy programs.

Beneficiary database. FONHAPO established a beneficiary database of Tu Casa/Vivah programs in February 2004. The number of beneficiaries in the database in December 2004 was 266,956. In theory, the system now allows web-based information sharing with SHF and SEDESOL, although no other agency is taking advantage of the information provided. Further actions include the integration of INFONAVIT and FOVISSTE beneficiaries as described in the policy matrix.

D. Housing Credit and Household Savings

Prior Actions:

- *Congress has approved a set of reforms that strengthen the legal framework at the national level for mortgages (credito hipotecario), 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.*
- *SHF has designed and put in place a database for mortgage risk assessment, and the private sector is contributing information on loans.*
- *SHF has expanded its products to include financing and guarantees both in UDIs and pesos.*
- *Bansefi has launched savings programs for low- and moderate- income households linked to lending by INFONAVIT and to Fonhapo's Tu Casa subsidy program.*

Based on the results achieved, this component is rated **highly satisfactory**:

Actions included in HUSAL I under this component were designed to (i) improve the efficiency and increase the capacity of the existing home lending institutions, (ii) leverage market-orientated resources mainly through guarantees, and (iii) develop adequate systems in order to take advantage of the ample opportunity for secondary market development to contribute to the Program's outcomes.

Regulatory Reform. Several factors have contributed to the important increase in investment in the housing sector for the period 2002-2004 (See Table 2). Reasons for this increase are the prolonged macro-economic stability, the decrease in interest rates and micro-economic and regulatory reforms. The reforms approved by Congress in 2002 and 2003 and supported under HUSAL I allowed adjudication of defaulted mortgage liens in federal courts, simplified documentation to prove the existence of the lien, allowed for extra-judicial foreclosure of collateral trusts, increased transparency and regulated licensing of property appraisers. These have contributed to the mobilization of private resources, increasing liquidity in the market. This is evidenced by the fact that in January 2005 SHF undertook the country's first transaction of mortgage-backed securities on the secondary market. SHF sold 10 million pesos in mortgage-backed securities to the bank Santander Serfin.

TABLE 2: Investment by Institution

(thousands of MXP)

Institution	2002	2003	2004	% Change 2002-2003	% Change 2003-2004
INFONAVIT	51,308,721	55,915,911	61,059,700	9.0	9.2
SHF [1/]	10,196,253	14,079,095	20,517,900	38.1	45.7
FOVISSSTE	3,561,720	17,494,981	14,595,300	391.2	-16.6
FONHAPO [2/]	996,080	1,152,786	1,678,500	15.7	45.6
Private Banks & SOFOLES [3/]	5,956,909	10,833,121	23,083,500	81.9	113.1
OREVIS	3,898,300	3,167,103	2,874,200	-18.8	-9.2
Other [4/]	1,943,876	12,064,460	9,792,200	520.6	-18.8
Total	77,861,858	114,707,456	133,601,300	47.3	16.5

1/ Includes PROSAVI

2/ Includes Tu Casa and FONHAPO's direct lending

3/ Includes loans by SOFOLES with own resources

4/ Includes PET, ViVRural, PEMEX, CFE, BANOBRAS, ISSFAM, HABITAT and FOVIM

Source: CONAFOVI

Credit-risk data base. In 2003 SHF designed and set in place a database for mortgage risk assessment as a response to the lack of information that was preventing an adequate measurement of risk exposure by market participants. Variables incorporated in to the database included: (i) financial characteristics of the loan, (ii) main characteristics of the unit, (iii) income, socio-demographic and credit history details of the borrower, and (iv) time and costs of adjudication in cases of delinquency. To date, the database includes information for all the peso-denominated operations undertaken by SHF and around 65% of the UDI denominated loans. As a next step, SHF will make the information available for market participants. Several studies included in

HUTAL will help to address some of the strategic and technical questions that will arise from making the database publicly available.

Guarantees. SHF continues to provide guarantees in UDI and pesos, successfully advancing the development of primary and secondary Mexican mortgage markets (See table 3).

Table 3: Number of Guarantees by SHF

	2003	2004
Pari-Passu	11,383	2,867
First Loss	41,766	30,859
Delinquency [1]		26,723
Total	55,152	62,453

1/ Starts in July 2004

Source: SHF

BANSEFI savings program. BANSEFI established a savings program linked to lending by INFONAVIT and TU CASA (VIVIENDAHORRO). The program supports households to save up to MX$ 8,000 (the mandatory savings contributions under the TU CASA program). Up to this date, 3,500 beneficiaries are registered to the Program. Through this program BANSEFI provides FONHAPO with useful information identifying demand for Tu Casa throughout the country. FONHAPO then coordinates with the local housing institutions the counterpart funding for each beneficiary. Since demand is disperse, this represents some challenges for FONHAPO's ability to work with the local counterparts. A future challenge of this program will be to create sufficient volume of demand in urban areas, most likely through increased promotion of the program to facilitate FONHAPO's ability to negotiate with the local institutes who in turn need to provide the counterpart funding.

Other Programs. SHF is taking additional steps to increase the availability of housing finance:

a. **Savings programs linked to housing finance**. SHF launched in March 2004 AHORRASIF – SHF's savings program linked to housing finance. SHF intends to expand the program and has increased the staff to promote the program amongst financial institutions and to enhance the database of subscribers.
b. **Microfinance pilot projects**. SHF is moving towards implementing two microfinance pilot projects as part of the efforts to provide finance low-cost housing solutions to low-moderate income households. It is expected that these pilots will be in operation as part of the actions included for HUSAL II.

E. Urban Real Property Registries and Rights

Prior Action:

- *Two state governments have started to implement property registry modernization programs with support from CONAFOVI.*

This component is rated as **satisfactory.**

The first loan under HUSAL supported CONAFOVI's property registry modernization program in two states. CONAFOVI and the signing state agree through a "*convenio*" to co-fund relevant studies and reengineering processes. Although it is too early to report on results for these (the programs are still under execution), the actions included in each *convenio* are likely to translate into a reduction in the time required to register a mortgage lien. CONAFOVI will soon sign agreements with five more states. As envisaged in the PD, the Bank is working closely with CONAFOVI to incorporate new elements into the *convenios* that will further enhance the scope and depth of reform.

F. National Urban Policy, Slum Upgrading and Institutional Strengthening

Prior Actions:

- *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 integrated its physical and social interventions in urban communities under a single umbrella slum-upgrading program (Habitat), as approved and funded by Congress.*
- *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.*
- *SEDESOL has completed an environmental assessment (EA) of the urban sector.*

The completion of the activities under this component is rated **satisfactory** based on the following items that have set the basis for the achievement of the program outcomes.

- **Poverty Maps**. The poverty mapping completed by SEDESOL under HUSAL I continues to serve as the basis for targeting of SEDESOL's main social programs. This methodology uses a comprehensive set of 15 variables to measure asset poverty in order to account for non-income related variables that influence the poverty status. The medium-term objective of HUSAL for this item is to make this methodology available to local governments, along with relevant training to strengthen local government planning and priorizing, which is being done through the recently established HABITAT local agencies.

- **The National Urban Development and Territorial Planning Policy** leads the actions of the sector agencies at federal and local level. Substantial efforts have been done by SEDESOL to develop a public information centre that will make all the sector information that is expected to be available to the general public *via* internet by mid 2005.

- The **HABITAT Program** now integrates physical and social interventions in the urban sector. Through this program all slum-upgrading interventions have to be prioritized to poor areas (as defined by asset poverty), request local counterpart funding and co-responsibility and have clear allocating rules. SEDESOL has established local HABITAT agencies in each city and has developed a methodology to incorporate community participation under the HABITAT Program which is expected to be fully operational under HUSAL II. Habitat has moved rapidly up to scale, supporting 818 barrios with MX$1,740 million in financing in 2004. To reach its full potential the next phase should focus on improving the quality of the

program in areas including: (i) more emphasis on sustainability through linking investments to local development plans; (ii) building capacity of municipal partners; and (iii) more emphasis on monitoring and impact evaluation as the program has expanded in scope over the last two years. In particular, the link between urban upgrading and housing through the program could be strengthened. During 2004, less than 1% of the total number of projects financed belongs to the land available for housing and urban development modality. All of these actions have co-financed solely land reserve acquisition. The new operational rules for 2005 incorporate new mechanisms to address this problem, including: (a) the condition that acquired land has to be destined to the progressive production of serviced lots, (b) the local government's contribution can be structured in the form of a loan, and, (c) lots should at least have vehicle access, water supply, electricity any form of sanitation solution.

- **Environmental Assessment**. SEDESOL completed an EA for the urban sector prior to board approval of HUSAL I. Several of the main policy recommendations derived from the study are already being addressed. SEDESOL is working jointly with the Secretariat of Environment and Natural Resources in four core areas to develop a new methodology to prepare land plans incorporating environmental criteria which would substitute the existing land planning methodology and standardize environmental and urban impact assessments. Also, environmental criterion has been incorporated into the HABITAT component that co-finances land planning. Further work is envisaged through HUSAL II and III under this component to support a comprehensive action plan and the implementation of urban sector environmental reforms agreed between the Bank and SEDESOL.

- **Expansion of "*Oportunidades*" in rural areas**. The most important social program modified its operational rules to include the urban poor. Results have been positive, in particular regarding the education component, decreasing school desertion.

G. Low and Moderate Income Land Development

Prior Actions:

- *SEDESOL has completed a full assessment of state and municipal land regulations in two regions to rationalize and simplify the land development process.*
- *SEDESOL has finished studies that: (a) inventory developable urban land; and (b) analyze the legal and financial options for residential* land development.

This component rates **satisfactory**. The studies completed under HUSAL I relate to the achievement of two separate outcomes:

Land Regulation. The two regional assessments completed prior to HUSAL I approval have provided necessary information on the existing municipal land regularization mechanism to design schemes for land development which will contribute to reduce costs and time required for land development of low and moderate land markets. At the time of project preparation benchmark data to measure progress in these two variables was not yet available. The program's forthcoming operations and the associated TA loan will help to address this issue.

Land markets. The land inventory completed has set the basis to mitigate the existing lack of documentation relative to land markets, which was identified in the PD as the first main obstacle preventing the implementation of adequate solutions to promote private sector investment in the sector. The inventory is an analytical tool which provides the main characteristics of plots available for development in each municipality. Further work under this component through

HUSAL includes the analysis of feasible alternatives to develop available land for the low/moderate segments.

H. Disaster Prevention and Management

Prior Actions:

- *SEDESOL has carried out at least 30 community-level risk analyses under its HABITAT program.*
- *SEDESOL has carried out at least 15 sensitization and mitigation projects under its HABITAT program.*
- *SEDESOL has put forward at least 10 proposals to organize land use in order to prevent natural disasters*.

This component rates **highly satisfactory.** Beyond the agreed actions completed by the GoM prior to approval of HUSAL I, SEDESOL has taken further steps to increase the sustainability of the activities financed by HABITAT under the disaster prevention modality**.** These actions include:

- In 2004 SEDESOL enhanced the HABITAT program under the Ordenamiento del Territorio y Mejoramiento Ambiental modality from just disaster prevention to incorporate disaster mitigation and environmental improvement as a disaster management practice.
- To promote a medium-term vision in disaster prevention, the new HABITAT operational rules for 2005 were strengthen under this component to allow co-financing of the elaboration of land and urban plans incorporating disaster prevention criteria.
- In addition, to widen the scope beyond the HABITAT *poligono*[3] the program will allow the risk atlas and risk studies to be prepared for cities, metropolitan areas and municipalities, taking full advantage of the methodology already developed. This is particularly important as it stretches beyond the ad-hoc definition of a *poligono*, matching the existing political division.
- The percentage of federal financing to prepare risk atlas and risk studies was increased under the new operational rules (2005) from up to 50% to up to 60%; the highest in all HABITAT modalities to generate incentives for local governments to invest in disaster prevention.
- Under the new 2005 rules HABITAT now co-finances:
  - (i) Disaster prevention strategies (risk diagnosis, natural risks studies risk atlas)
  - (ii) Proposals to prepare land uses and land planning incorporating disaster prevention criterion
  - (iii) Education and awareness campaigns
  - (iv) Small works on disaster prevention and mitigation
  - (v) Resettlement resulting from disasters

5. Major Factors Affecting Implementation and Outcome

Institutional coordination. Institutional risk was identified as one possible risk element in the PD, as several agencies must contribute to achieve reform. It was mitigated through a strong reliance in the leadership of the Ministry of Finance (SHCP) to provide leadership across agencies, ensure the fiscal sustainability and link the real and the financial side of the Program.

[3] HABITAT has identified urban areas with a high concentration of population living in asset poverty. Only these areas or *poligonos* receive federal funding.

SHCP and SHF formalized a "*Convenio de Mandato*" that establishes the main activities for the "*Agente Financiero*" and the "*Unidad Coordinadora del Proyecto*" both of them part of the SHF staff, in order to fulfill this role. To certain degree, key officials within CONAFOVI exercised this role prior to approval of HUSAL I; however there was also a change in key personnel within this agency with different technical skills and priorities. These shifts in leadership have increased the difficulty of achieving reform in the sector, a situation that has particularly affected the subsidy component. Given that the second operation of the Program emphasizes reform within the subsidy policy area this issue could potentially present an obstacle for delivering reform.

Housing sector database and evaluation mechanisms. Existing data systems for the housing sector are fragmented and limited in scope. This situation, coupled with a lack of an evaluation mechanism is limiting the ability of the sector agencies to design housing policies and measure their outcomes. CONAFOVI is best placed to host a unit that would manage a database system incorporating real and financial data, as a rigorous evaluation mechanism and technically skilled staff. This in turn, could strengthen CONAFOVI's role in setting the housing policy agenda.

6. Bank and Borrower Performance

Bank

Satisfactory. The Bank's team engaged in a fruitful and sustained dialogue with the three implementing agencies during project preparation despite many counterpart turnovers. In particular, the Bank's team facilitated dialogue between various sector entities that are not familiarized with cross-agency collaboration.

The technical assistance provided had significant impact in the design on housing and urban policies and programs derived from the intense analytical sector dialogue (AAA) since the start of the present administration. It should be noted that for the subsidy component, the TA provided by the Bank was particularly strong, to support the achievement of reform in the sector. Two international seminars were conducted on this topic to discuss policy recommendations and international best practice.

It is worth noting that the project records present important gaps in documentation to and from the counterparts within the Government. For the preparation of this report, this was to some extent mitigated by dialogue with team members.

Borrower

Satisfactory. Overall government's commitment during project preparation to the housing and urban sectors and to the project was a pillar to support sector reforms. However, lack of continuity of the core personnel in CONAFOVI slowed the pace of reform for the subsidy component, it seems to be the case that the Government underestimated the need to bring all players on board on the decision making process.

7. Findings and Implications for Subsequent Operation(s) in Series

Reforms supported by HUSAL have contributed to the recent expansion and diversification of market-rate housing credit in the moderate-income segment by leveraging private sector resources, as evidenced by an increase in the outstanding mortgage to GDP ratio from 4.9% in 2000 to 7.3% in 2004[4].Subsequent operations of the Program should replicate this success for the

[4] Includes outstanding debt from INFONAVIT, FOVISSTE, private banks, SOFOLES and securitizations.

much broader low-income segment. To a large extent, the elements included in the agreed policy matrix will promote this outcome; however special attention should be given to the subsidy component. It would be advisable to incorporate into the policy matrix the development of a comprehensive housing sector database that could provide the housing commission with an essential tool, lacking at the moment, necessary to exercise the role as policy body. Improving CONAFOVI's technical skills could in turn increase their ability to promote change in the sector, in particular given their very limited "formal authority" with other housing agencies.

The Program's main objective - improving the living conditions of the poor- depends on a varied array of variables identified in each of the project's components. To different degrees reform is needed in all of them to address the main goal. It is expected that these reforms will occur gradually, for this reason, the programmatic structure of the project design suits the operation.

HUSAL supports a set of ambitious reforms in two important sectors, housing and urban, which although related in practice are under two different government offices within the Mexican context. Indeed, reforms included for the housing sector alone involve four different government agencies. This naturally implies increased difficulties for program implementation; however there are substantial benefits to be gained in favour of sector policy from the Bank's role as facilitator between different government agencies fostering policy discussion towards reform. This has been recognized by the client as an important positive impact of the Bank's role.

ANNEX 1: POLICY MATRIX
MEXICO AFFORDABLE HOUSING AND URBAN POVERTY PROGRAMMATIC SECTOR ADJUSTMENT LOAN
MATRIX OF OBJECTIVES, PRIOR ACTIONS, TECHNICAL ASSISTANCE AND OUTCOMES

Policy Area	PRIOR ACTIONS FIRST ADJUSTMENT LOAN May 2004	Indicative actions for SECOND ADJUSTMENT LOAN Tentative August 2005 (key prior actions for second loan in bold)	Indicative actions for THIRD ADJUSTMENT LN Tentative August 2006 (key prior actions for third loan in bold)	Technical Assistance (TA) Loan	Program Outcomes
Macro-economic 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***

Policy Area	PRIOR ACTIONS FIRST ADJUSTMENT LOAN May 2004	Indicative actions for SECOND ADJUSTMENT LOAN Tentative August 2005 (key prior actions for second loan in bold)	Indicative actions for THIRD ADJUSTMENT LN Tentative August 2006 (key prior actions for third loan in bold)	Technical Assistance (TA) Loan	Program Outcomes
National Housing Policy and Institutional Framework	• 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. • 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. • Government has completed an environmental assessment (EA) of the housing sector.	• CONAFOVI has continued to provide to the general public information on housing policy implementation and program evaluation. • Institutional alignment moves to the state level through the establishment of at least 25 state Housing Councils. • The Government has prepared and is implementing an action plan for housing sector environmental reforms as part of the SEA process.	• All 32 states have created State Housing Councils. • Fonhapo's activities focused on loan recuperation and housing subsidy management, and second tier lending eliminated. • Develop a strategy for transforming INFONAVIT and reconciling conflicting social objectives (pension fund, housing credit provider and social housing agency). • Satisfactory implementation of the SEA by the Government.	Evaluation of housing programs National program of institutional strengthening of states and municipalities on low income housing Support for housing information system Analysis of costs and benefits of changed strategy/role for INFONAVIT Housing Sector SEA	***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*** ***States and localities increasingly subsidize housing through grants rather than below-market-rate loans*** ***Strategy document developed for rationalization of role of INFONAVIT.***

Policy Area	PRIOR ACTIONS FIRST ADJUSTMENT LOAN May 2004	Indicative actions for SECOND ADJUSTMENT LOAN Tentative August 2005 (key prior actions for second loan in bold)	Indicative actions for THIRD ADJUSTMENT LN Tentative August 2006 (key prior actions for third loan in bold)	Technical Assistance (TA) Loan	Program Outcomes
Housing Subsidies	• 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. • 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.	• **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.**	• **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.**	Coordinated 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 calculation of the present value of selected INFONAVIT interest-rate subsidy packages.	***Federal housing subsidies unified*** ***GREATER EQUITY, EFFICIENCY, FISCAL SUSTAINABILITY, & LEVERAGING OF CREDIT AND HOUSEHOLD SAVINGS DEMONSTRATED BY FEDERAL HOUSING SYSTEM***

Policy Area	PRIOR ACTIONS FIRST ADJUSTMENT LOAN May 2004	Indicative actions for SECOND ADJUSTMENT LOAN Tentative August 2005 (key prior actions for second loan in bold)	Indicative actions for THIRD ADJUSTMENT LN Tentative August 2006 (key prior actions for third loan in bold)	Technical Assistance (TA) Loan	Program Outcomes
	• FONHAPO has established a database of beneficiaries of Tu Casa/Vivah.	• FONHAPO has incorporated the beneficiaries PROSAVI, INFONAVIT, and FOVISSSTE into the unified housing beneficiary database.	• *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.* • *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.*	***Support for*** capacity building of FONHAPO/ FONAEVI	**Beneficiary selection system widely used by housing agencies to register and screen subsidy applicants**
Housing Credit and Household Savings	• Congress has approved a set of reforms that strengthen the legal framework at the national level for mortgages (*credito hipotecario*), 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.		• ***2005 funding agreements for federal housing support to states (CODEVISU) reflect effective mortgage foreclosure.***	Mortgage foreclosure awareness program	***Greater funding, lending, affordability & downmarket penetration demonstrated by the housing finance system***
	• Congress has approved a new financial transparency law related to mortgage loans, providing	• *SHF has issued appraisal norms for its own housing finance operation and has created a minimum standard for a master*	• *SHF has issued disclosure rules for the cost of home-improvement loans and refinancing of mortgage*	Home counseling study/program on mortgage lending	***Differences in effective interest rates***

Policy Area	PRIOR ACTIONS FIRST ADJUSTMENT LOAN May 2004	Indicative actions for SECOND ADJUSTMENT LOAN Tentative August 2005 (key prior actions for second loan in bold)	Indicative actions for THIRD ADJUSTMENT LN Tentative August 2006 (key prior actions for third loan in bold)	Technical Assistance (TA) Loan	Program Outcomes
	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. • SHF has designed and put in place a database for credit risk assessment, and private sector is contributing information on loans. • SHF has expanded its products to include financing and guarantees both in UDI and peso. • *Bansefi has launched savings programs for low- and moderate-income households linked to lending by Infonavit and Fonhapo's Tu Casa program.*	*insurance policy.* • *All new peso and UDI denominated housing loans are incorporated into the Database for credit risk.* • *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.* • ***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***. • Bansefi 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.	*loans.* • Actions have been initiated to clean and incorporate historic data into the Database on UDI-denominated loans • Information contained in the database for credit risk could be available to the private sector. • **SHF mainstreams financing of home improvement, addition and purchase of existing housing, in accordance with standards agreed between the GOM and the Bank.** • Bansefi programs have added 4,000 new low and moderate-income clients over the last year to the INFONAVIT, SHF, and Fonhapo Tu Casa program.	for potential borrowers. Software engineering and hardware support for SHF to hasten the development and distribution of the credit database. Studies of: (a) the role of Cajas de Ahorro y Préstamo and other lenders in low/moderate-income housing finance, and the potential of Bansefi as a source of long-term funding; (b) the feasibility of SHF issuing retail bonds to low and moderate income	***among mortgage lenders decrease*** ***Loans increasingly accompanied by home counseling*** ***Housing and mortgage risk data used by private-sector*** ***Access increased of low-moderate-income households to home credit for low-cost housing solutions*** ***Greater share of low-moderate-income families enrolled in***

Policy Area	PRIOR ACTIONS FIRST ADJUSTMENT LOAN May 2004	Indicative actions for SECOND ADJUSTMENT LOAN Tentative August 2005 (key prior actions for second loan in bold)	Indicative actions for THIRD ADJUSTMENT LN Tentative August 2006 (key prior actions for third loan in bold)	Technical Assistance (TA) Loan	Program Outcomes
			• Study completed for new legal and regulatory framework for issuance and investment in mortgage related securities by credit institutions.	savers, with proceeds funding home credit to this income group: (c) of demand for financial products by immigrants and the use of remittance flows. Development of norms for SOFOLES.	***formal-sector savings programs or with savings accounts***
URBAN REAL PROPERTY REGISTRIES AND RIGHTS	• Two state governments have started to implement property registry modernization programs with support from CONAFOVI.	• **Five additional state governments have implemented property registry modernization programs, in a manner agreed between the GOM and the Bank.**	• All states have adopted new property registry programs. • 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.	Support for modernization of property registries in additional states. Studies for consensus on legal framework for property rights.	***Time required to register a mortgage lien in pilot states reduced substantially***

Policy Area	PRIOR ACTIONS FIRST ADJUSTMENT LOAN May 2004	Indicative actions for SECOND ADJUSTMENT LOAN Tentative August 2005 (key prior actions for second loan in bold)	Indicative actions for THIRD ADJUSTMENT LN Tentative August 2006 (key prior actions for third loan in bold)	Technical Assistance (TA) Loan	Program Outcomes
National Urban Policy, Slum Upgrading and Institutional Strengthen-ing	• 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 continues to increase and improve the information available to the public on urban development and territorial planning policy.			***National urban policy established, along with supporting institutional framework.***
	• SEDESOL Poverty mapping has been completed and used for targeting social programs (Habitat, Oportunidades, Liconsa).	• SEDESOL Poverty mapping made available and training provided to local governments and communities on its incorporation into municipal priority setting for investments and programs.	• Trained municipalities have incorporated poverty mapping into municipal priority setting for investments and programs.	Poverty mapping dissemination and training for states, municipalities and communities.	
	• 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. • 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.	• **SEDESOL has strengthened Habitat through participatory planning, coordination, and sequencing of investments.** • At least 45 of municipal governments establish urban planning agencies.	• 80 additional municipal governments establish urban planning agencies.	Competitiveness program for Development Agencies in fast growing urban areas.	***Increased efficiency of slum upgrading under Habitat as measured by greater community participation & investment planning, and improved sequencing of investment.***

Policy Area	PRIOR ACTIONS FIRST ADJUSTMENT LOAN May 2004	Indicative actions for SECOND ADJUSTMENT LOAN Tentative August 2005 (key prior actions for second loan in bold)	Indicative actions for THIRD ADJUSTMENT LN Tentative August 2006 (key prior actions for third loan in bold)	Technical Assistance (TA) Loan	Program Outcomes
	• Government has completed an environmental assessment (EA) of the urban sector.	• 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.	Satisfactory implementation of the Environment Action Plan by the Government.		
Low and Moderate Income Land Development	• 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, Chihuaha, Coahuila, Durango, Nuevo Leon, Sinaloa, Sonora and Tamaulipas). • SEDESOL has finished studies that: (a) inventory developable urban land; and (b) analyze the legal and financial options for residential land development.	• **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.**	**Satisfactory implementation of a pilot program that facilitates low/moderate-income residential land development.**	Evaluation of and proposals for the urban land inventory. Study quantifying the costs and benefits of irregular and regular land use. Study on new instruments and action plan for low/moderate-income land development.	***Costs and time required for land development reduced.*** ***Increased scale of and private-sector involvement in low-moderate-income land development***

Policy Area	PRIOR ACTIONS FIRST ADJUSTMENT LOAN May 2004	Indicative actions for SECOND ADJUSTMENT LOAN Tentative August 2005 (key prior actions for second loan in bold)	Indicative actions for THIRD ADJUSTMENT LN Tentative August 2006 (key prior actions for third loan in bold)	Technical Assistance (TA) Loan	Program Outcomes
DISASTER PREVENTION AND MANAGEMENT	• SEDESOL has carried out at least 30 community-level risk analyses under its HABITAT program. • SEDESOL has carried out at least 15 sensitization and mitigation projects under its HABITAT program. • SEDESOL has put forward at least 10 proposals to organize land use in order to prevent natural disasters.	• SEDESOL continues its work on community disaster mitigation through risk analysis, sensitization programs and mitigation works in interested cities participating in the HABITAT program • SEDESOL finalizes methodology for developing "risk atlases" at the city level. • 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.	• SEDESOL continues its work on community disaster mitigation through risk analysis, sensitization programs and mitigation works in interested cities participating in the HABITAT program • SEDESOL has promoted the elaboration of risk atlases for/with 30 additional cities.	Review of the methodology to elaborate Risk Atlases Training for local authorities in risk prevention	***Vulnerability to natural disaster events is reduced significantly in Mexico's major cities***

ANNEX 2: COMMENTS FROM THE BORROWER AND SOCIEDAD HIPOTECARIA FEDERAL (SHF)
(Original in English)

June, 27 2005

IMPLEMENTATION COMPLETION REPORT
AFFORDABLE HOUSING AND URBAN URBAN POVERTY SECTOR ADJUSTMENT LOAN
(P070371)

1. The HUSAL program was negotiated with the World Bank on April 21, 2004 with the participation on the Mexican side of SHCP, SEDESOL, CONAFOVI and SHF. On July 26, 2004 the loan was approved by the World Bank board. On October 1, 2004 the SHCP and SHF formalized a "*Convenio de Mandato*" the establishes the main activities for the "*Agente Financiero*" and the "Unidad Coordinadora del Proyecto" both of them part of the SHF. The "*Agente Financiero*" is under the Finance division of SHF while the "*Unidad Coordinadora de Proyecto*" is under the Economic and Housing division of SHF. The loan was declared effective on December 17, 2004 and the disbursement of US$99 million took place a week after.

2. The objectives of the first part of the program stated in the policy matrix of the PAD have been fulfilled completely and the outlook of the rest of the program is positive. The actions undertaken by the CONAFOVI, SEDESOL and SHF are a complement to the government policies in the housing and urban sector. Hence, the agencies involved in the program have shown a strong commitment with its success.

3. The program and in particular this loan has made major achievements:

i) Brought closer together SHCP, SHF, CONAFOVI and SEDESOL, fostering the exchange of ideas and the ability to find common goals and actions among institutions. The subsidy seminar and working group that started with the World Bank participation in April 2005 is a good example. The SHF financed a subsidy study for Mexico (under another 4443-ME World Bank loan) that was the basic input in the subsidy seminar and working group. Moreover, the loan has achieved one of its main goals by placing subsidy issues in the agenda of the housing sector in Mexico. The output of the work group is still to be seen but there is hope to find common ground and issue a set of policy recommendations.

ii) The beginning of the pilot microfinance for house improvement program by SHF. The pilot program is set to start in July 2005. The World Bank staff played an important role in the launch of this program by actively working with its counterpart at SHF.

4. Despite the important achievements of the loan, two issues had a negative impact on its operational implementation:

i) Continuous changes in the World Bank staff affected the implementation of the program. In particular, two changes in the manager of the project left the program without the necessary attention, leadership and follow up from the World Bank, creating unnecessary confusion among the Mexican agencies.

ii) The delay in the effectiveness of the HUTAL affected the implementation of actions complementary to the HUSAL.

5. In spite of all the changes, communication between the World Bank and SHF as "*Agente Financiero*" and "*Unidad Coordinadora de Proyecto*" has been fluent and rapid. The necessary operational systems are in place to monitor the actions by all the agencies involved and most of the operational issues have been resolved promptly. It is expected that all the agencies will fulfill the policy matrix to a satisfactory degree for the World Bank and the next disbursement will take place in 2005.