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MEXICO

FOUR POINTS IN THE URBAN HOUSING IMPROVEMENT VALUE CHAIN

(ME-T1323)

DONORS MEMORANDUM

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PROJECT SUMMARY
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In the state of Mexico, eight municipios neighboring Mexico City to the northwest and northeast have 6.5 million residents in 1.7 million households: Ecatepec, Atizapán, Naucalpan, Chimalhuacán, Tlalnepantla, Ciudad Nezahualcóyotl, Cuautitlán Izcalli, and Tultitlán. More than an estimated 20% of these residents live in inadequate housing conditions (qualitative deficit). This percentage is significantly higher—over 60%—among the vulnerable population and among residents dependent on self-employment, microenterprises, and other informal sources of income. These people live primarily in self-built housing.

For the population of these municipios, four points in the housing value chain are essential for improving their quality of life: (1) management of technical assistance including design, construction technology, and work supervision; (2) purchase of quality materials at affordable prices; (3) access to finance in line with families' ability to pay; and (4) management of labor and construction per se, part of which can be done by the family.

Weaknesses in management at these four points are standing in the way of implementation of necessary improvements in the housing of the vulnerable population.

The project proposes using new technologies to manage housing improvements and additions, first in eight municipios of the state of Mexico, and then throughout the country. Specifically, the project will develop a software application that can be used on a smartphone, which most of the beneficiary population in the municipios of the state of Mexico possess. The app can be used to manage major additions including, for example, new rooms or finished floors, walls, or roofs, as well as improvements in water and sanitation, kitchen or bathroom, extensions, finishes, and other home improvements.

As a result of the project, some 15,600 families are expected to access a new technology, including at least 3,700 who will access a lending product for housing improvement supported by the project, and 4,800 who will improve their housing using the software application, and approximately US\$5.7 million is expected to be invested in improvements and additions for housing with qualitative deficits.

This technical-cooperation project with the affordable housing value chain will be closely coordinated with other MIF housing projects in Mexico. In particular, the MIF will promote innovative, scalable business models for housing solutions adapted to the needs of the vulnerable population of Mexico cities. These business models will include inclusive lending products for housing improvements and additions, linkages to emerging companies, solutions for construction and access to energy, water, and sanitation services, the use of resilient and green materials, and access to technical assistance in construction processes. In addition, in all of the projects complementarity and synergies will be sought with the housing interventions of the IDB and the Government of Mexico.

ANNEXES

Annex I	Results Matrix
Annex II	Itemized Budget

INFORMATION AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF THE MIF PROJECT INFORMATION SYSTEM

Document 1	Diagnostic needs assessment (DNA) of the executing agency
Document 2	Table of milestones
Document 3	Project status reports and achievement of milestones, fiduciary arrangements, and institutional integrity
Document 4	Procurement plan

ABBREVIATIONS

CIV	Centro de Innovación de la Vivienda, Asociación Civil
DNA	Diagnostic needs assessment
INDEC	Instituto Nacional de Estadística y Censos [National Statistics and Census Institute]
INFONAVIT	Fondo Nacional de la Vivienda para los Trabajadores [National Workers' Housing Fund Institute]
MSMEs	Micro, small and medium-sized enterprises

EXECUTIVE SUMMARY
FOUR POINTS IN THE URBAN HOUSING IMPROVEMENT VALUE CHAIN
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Country and geographic location:	The project will be conducted in eight municipios of the state of Mexico: Ecatepec de Morelos, Nezahualcóyotl, Naucalpan de Juárez, Tlalnepantla de Baz, Chimalhuacán, Cuautitlán Izcalli, Atizapán de Zaragoza, and Tultitlán.		
Executing agency:	Habitat for Humanity International		
Focus area:	Inclusive Cities		
Coordination with other donors/Bank operations:	The project will be coordinated with other MIF projects in the area of housing with Kubo Financiero and Te Creemos. This will help to ensure that these two institutions' housing finance products can be offered through the software application.		
Project clients:	<p>The project is expected to reach some 15,600 families in the eight municipios of the project during the execution period. This number will increase substantially when the project is scaled up through the addition of new project lenders.</p> <p>The project is expected to bring operators in the housing improvement value chain closer the vulnerable population living in houses with qualitative housing deficits. These operators include construction materials companies and stores selling these materials, masons, tradesmen, and lenders.</p>		
Financing:	Technical cooperation:	US\$550,000	52%
	Total MIF contribution:	US\$550,000	
	Counterpart:	US\$500,000	48%
	Total project budget:	US\$1,050,000	100%
Execution and disbursement period:	36 months for execution and 36 months for disbursement.		
Special contractual clauses:	The following special conditions will be conditions precedent to the first disbursement: (1) submission of evidence, to the MIF's satisfaction, of selection of the project coordinator, (2) evidence of an agreement with at least 20 materials stores in the state of Mexico for project launch.		
Environment and social impact review:	This operation has been screened and classified according to the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703). As the impacts and risks are limited, the proposed classification for the project is category "C."		

I. PROBLEM TO BE ADDRESSED

A. Description of the problem

- 1.1 **Urban housing backlog.** In Mexico, in 2014, 8.9 million of the 31.6 million households were suffering from a housing backlog,¹ which includes living in dwellings built with defective materials, overcrowding, or deteriorated housing. Although the Government of Mexico has made great strides in the construction and financing of new affordable housing, reducing the qualitative deficit of the vulnerable population²—the need to improve existing housing—with public programs has proved more complex. One reason for this is that about 40% of houses in Mexico are self-built,³ and this percentage is considerably higher among the lower-income population, translating into recurring needs for repairs, additions, and finishing. In addition, repairing existing dwellings could mitigate carbon emissions, since the construction of new housing, together with transportation, is the greatest source of carbon emissions in the cities of the region.
- 1.2 **Urban housing improvement needs in the state of Mexico.** In the state of Mexico, eight municipios⁴ neighboring Mexico City to the northwest and northeast have 6.5 million residents in 1.7 million households. More than an estimated 20% of these residents live in inadequate housing conditions (qualitative deficit). This percentage is significantly higher among the 60% of the population that works in the informal sector and lives primarily in self-built housing. Fifty-three percent of families live in their own homes, while the remainder is equally divided between those living in rented dwellings and those living in dwellings transferred to them. It is estimated that more than two-thirds of the dwellings in these municipios are self-built, creating recurring needs for improvement and expansion. According to data from the National Statistics and Census Institute (INDEC), the deficits in the eight municipios are in roofs (made of sheet metal or unsuitable material), affecting 136,700 households; limited space, affecting 437,400 households with two rooms or less; and access to water, affecting 296,000 dwellings where water is available on the property but not within the house. Dwellings commonly have problems with finishings, walls in poor condition, or unfinished floors, largely because they are self-built with insufficient resources, materials, or labor. Significantly, 54% of families live in houses that they had someone else build or that they built in stages, which increases the qualitative deficits (see Table 1).
- 1.3 A recent market study⁵ in the state of Mexico carried out by Habitat for Humanity International's Centro de Innovación de la Vivienda [Center for Housing Innovation] (CIV) identifies the following priority needs in terms of housing improvements for the vulnerable population: 48% of those surveyed put priority on an addition; 22%, on

¹ Dirección de Estudios Económicos de la Vivienda [Housing Economic Studies Office] of Sociedad Hipotecaria Federal (SHF).

² For the purposes of this project, the vulnerable population is considered to be families earning less than 10 times the minimum wage.

³ Built by the occupants and not by a construction company. Softech: 2007 study on housing in Mexico.

⁴ The eight municipios are: Ecatepec de Morelos (Ecatepec), Atizapán de Zaragoza (Atizapán), Naucalpan de Juárez (Naucalpan), Chimalhuacán, Tlalnepantla de Baz (Tlalnepantla), Ciudad Nezahualcóyotl (Ciudad Neza), Cuautitlán Izcalli (Cuautitlán), and Tultitlán. All data are from the National Statistics and Census Institute (INDEC).

⁵ 180 in-depth interviews conducted in 2015.

fixing floors or walls; and a little over one fourth, on fixing bathrooms, weatherproofing, or other repairs and finishings.

- 1.4 **The housing improvement value chain in the state of Mexico.** Families in the state of Mexico who repair or enlarge their dwellings say they have to deal with different actors with which it is difficult to successfully complete the necessary arrangements, owing to their lack of comparable prior experience. Enlargement or fix-it projects often require specialized technical assistance to design and/or supervise the work, and support with purchasing materials, hiring laborers, and finding sources of finance. The different stakeholders in these areas generally operate in isolation from one another, and are not necessarily focused on the population at the base of the pyramid.

Table 1. Priority needs indicated by families interviewed

What they would enlarge/remodel	Cases	%
Enlarge house/bedrooms	67	37
Ground/floor	22	12
Enlarge living room/dining room/kitchen	20	11
Tile	18	10
Bathroom	15	8
General remodeling/finishings	15	8
Build wall	9	5
Paint/weatherproof	7	4
Build commercial premises	3	2
Build foundation	3	2
Cistern	1	1
Total	180	100

- 1.5 **Technical assistance.** For the low-income families in the eight municipios of the project, obtaining technical assistance is essential both for self-construction as well as for construction by contractors. With regard to self-help construction (19% of the population in the eight municipios), residents acquire knowledge through informal networks of masons and workers known by friends and relatives; nevertheless, this exposes them to problems with quality of workmanship. Fifty-four percent of families live in houses that they commissioned to be built or that they built in stages, which creates a need for additional repairs and enlargements (see Table 2). In the case of construction by contractors (36%), the capacity to negotiate with the builder (whether an individual or company) and to manage materials and costs and monitor the keeping of commitments is essential.

Table 2. Modes of acquisition and construction of dwellings in eight municipios⁴ of the state of Mexico

Mode of acquisition and or construction	Dwellings	Percentage
Purchased the dwelling	643,152	37%
Commissioned the construction	621,374	36%
Self-help construction	334,735	19%
Inherited the dwelling	93,676	5%
Government grant or other	52,060	3%
Total	1,744,998	100%

- 1.6 **Purchase of materials and hiring of laborers.** Approximately 2,100 construction material stores operate with different business models in the eight municipios of the project. Store employees often provide valuable information on potential masons and laborers, as well as advice on what materials to purchase and other essential information for an improvement project.
- 1.7 **The target population's experience with housing microcredits.** CIV has been designing and implementing housing improvement products with Pro Mujer México and Alsol Contigo, two local microfinance institutions in the states of México and Chiapas, respectively. These two institutions' experience with credit for housing improvement indicates that the most frequent needs for improvements relate to walls, floors, additional rooms, and roofs. Nevertheless, these two institutions as well as other microfinance institutions have been slow to make inroads with housing microcredit. These entities have specialized by estimating how willing and able small business owners—or microentrepreneurs—are to repay, but have been unable to do this with low-income employees, who account for a large portion of demand. In addition, the microfinance institutions are unfamiliar with the decision-making processes of customers who wish to improve or enlarge a dwelling: project design, hiring of laborers, purchase of materials, scheduling of work, etc. Consequently, they treat housing microcredits as if they were consumer loans, with minimal value added for the customer.
- 1.8 **Other financing options.** The National Workers' Housing Fund Institute (INFONAVIT) offers housing improvement loans through its Mejoravit program for wage-earners. The availability of financing for microentrepreneurs, low-income self-employed, and temporary or seasonal employees is limited, and these individuals often combine several different sources to accomplish housing improvements: (a) savings, primarily in kind, by gradually purchasing construction materials stored at the dwelling, with the associated risks of deterioration and illiquidity; (b) consumer loans, with bank or store credit cards; (c) loans from relatives, friends, local lenders; and (d) microlending from institutions such as CAME, Banco Compartamos, and others operating in the project municipios.
- 1.9 **Profile of the target population.** The project will target the urban population living in their own house or house that they occupy as the result of a long-term transfer and that are in need of repairs or enlargements. These residents generally work for microenterprises, are self-employed, or have low-skill employment, and earn, on average, up to six times the minimum wage.⁶ The families have on average four members, who work primarily in the informal economy, carry out part of the construction process, purchase materials at specialized materials stores, and do not want or are unable⁷ to move to a newly constructed house away from their current location.

⁶ About US\$600,650, at an average exchange rate of US\$1 = 20 Mexican pesos. Source: INEGI.

⁷ Because their income level is too high for them to qualify for an INFONAVIT loan.

II. THE PROPOSED SOLUTION

A. Project description

- 2.1 The project objective is to improve the living conditions of the vulnerable population in Mexico through the use of new technologies for quality urban housing. The proposed solution is to make the process of managing low-income housing improvements in Mexico more informed and effective through a value-chain approach at four points: (1) work plan, (2) materials and labor, (3) technical assistance with construction, and (4) financing.⁸
- 2.2 A technology tool will be developed to facilitate offering these services to the beneficiary population. This software application, or “app,” will allow users to obtain information on providers of different services and make better housing improvement decisions. The app will be designed with four main functions to enhance access to information and manage decision-making: (1) work plan, (2) materials and labor, (3) technical assistance with construction, and (4) financing.
1. Users will enter the app from the “work plan” menu and can select and redefine preset options for housing enlargement, finishings, and other improvements relating to water, energy efficiency, resilience, floors, roofs, walls, and other common needs. These definitions will be used to configure the initial options of the three menus. Depending on the results of tests with users, the menu may provide access to certain frequently used basic project designs. In addition, during project execution, this menu will include information on solutions adapted from local entrepreneurs,⁹ who will be supported by the project, in such areas as water, energy, etc. In the pilot phase, this menu will be named “proyectos-sueñas” (“plan-dream”).
 2. From the “materials and labor” menu, users will be able to budget and manage their purchases of materials and hiring of construction workers, depending on the work plan they established initially. This second menu will be named “calculas” (“calculate”) for the initial phase of the pilot.
 3. From the “technical assistance” menu, users will have access to three types of content and actions, which will be shown depending on the options selected in the preceding menus: (a) tips relating to resilience (to flooding or earthquakes), energy efficiency, and the use of sustainable materials and techniques; (b) a YouTube channel with videos selected by Habitat, with recommended construction solutions; (c) the names and contact information of masons in the area (using georeferencing technology). This menu will be named “aprendes” (“learn”) during the pilot phase.
 4. Lastly, the “financing” menu will have two sections: “te evalúas” (“evaluate yourself”), which will allow users to examine the type and amount of financing for which they might be eligible, depending on their type of employment (e.g., payroll vs. microenterprise) and income level. The second section, “te

⁸ Although the percentage of users with data-plan subscriptions is lower than those able to use Wi-Fi, most smartphone users connect to the Internet to use social-network applications at common, free access points, both private and public.

⁹ Initially, entrepreneurs with construction solutions will be identified in thematic solicitations using a methodology to be transferred to the project by Village Capital.

financias” (“finance yourself”), will allow users to see the housing improvement financing products offered by around six project lenders. Initially, these partners will be: (1) one or two crowdfunding platforms, including Kubo Financiero; (2) one or two public or private banks, including BANSEFI, with a large-scale service strategy for the low-income population; (3) one or two microfinance institutions, including Pro Mujer México; and (4) a credit union for low-income earners. The menu will allow users to access a page with a description of the product and its online application process (as applicable). For the inclusion of a link to a housing finance product, Habitat will work in tandem with CIV to adapt housing finance products to the needs of the vulnerable urban population. During the initial pilot phase, this menu will be named “hazlo posible” (“make it possible”).

- 2.3 **Pilot.** The prototype will be installed on a tablet available to customers at 20 materials stores during a pilot phase. In a scaling up phase, the menu will be downloadable from the Internet, although it will be promoted at material stores associated with the project, so that guidance and advice can be provided directly at the stores.

Table 3. App menus

Sueñas-Proyectos Construction project	Calculas Materials and labor
Aprendes-Gestionas Technical assistance	Hazlo Posible Savings and Loans

- 2.4 **Housing improvement value chain.** While the pilot phase is being executed, Habitat will work to strengthen the points in the housing improvement value chain, to facilitate with the app: (a) three lenders (initially), which will receive assistance in tailoring their housing improvement products; (b) local skilled laborers; (c) construction entrepreneurs with solutions adapted to low-cost housing needs and payment capacities in the state of Mexico; (d) technical assistance providers able to manage projects; and (e) construction materials companies interested in linking their distribution businesses to use of, and support for, the app for their customers.
- 2.5 **Scaling.** Once the pilot phase of the app prototype has been completed and evaluated, Habitat will conduct a process to select an app developer, which may include an innovation competition, or “hackathon,” for the development of specific aspects relating to the tool, such as the dissemination, mass subscription, and training processes.
- 2.6 **Innovation.** The project is innovative inasmuch as it incorporates a new perspective in the management housing improvement. The new perspective emphasizes managing the information and decisions made by families who want to improve their housing. This lets families take the lead in housing improvement, and the project facilitates a technology tool that supports access to content and complex decision-making. The project will help families reduce uncertainty in managing housing improvement, in such areas as buying the right materials or selecting the most suitable source of financing for the work, ensuring market linkages through the participation of various stakeholders that are to be involved in the process.

- 2.7 **Component I: Development of partnerships and adaptation of housing improvement products and services.** This component will focus on developing and strengthening partnerships with the stakeholders in the housing value chain, including technical assistance for financial institutions interested in improving their housing improvement and enlargement products. As a result of this component: (1) at least five financial institutions will be added to the project and will offer housing improvement products through the app, including at least three products adapted specifically to the project; (2) at least two agreements will be developed with construction materials companies to assist in the use of the app at materials stores; (3) at least 12 emerging companies will be identified and will offer affordable solutions adapted to housing improvement in the state of Mexico through six solicitations for thematic ventures to be managed by Village Capital, in such thematic areas as water, sanitation, energy efficiency, green technologies, etc.
- 2.8 **Component II: Pilot of the housing improvement management app.** This component will focus on the initial technological development and implementation of the pilot. As a result of this component, a prototype of the app will be tested through at least 20 materials stores.¹⁰ To this end, Habitat will engage a technology company to develop the prototype of the app and manage the implementation of the pilot, including the training of customer service staff at participating stores. As a result, at least 120 users will register using tablets installed for this purpose at the stores and test four modules of the app on their smartphones. An evaluation will be carried out to align the tool with customer needs.
- 2.9 **Component III: Implementation of the technology tool.** The goal of this component will be to complete the development and implement the initial version of the technological app. A technology firm will be engaged for this, and a hackathon held to solve specific issues relating to the app that become apparent from the evaluation of the prototype, and to define dissemination strategies. In this component, the app will be disseminated and installed through four main channels: (a) at least 20 materials distribution stores; (b) three participating financial institutions, which will provide it to their customers; (c) promotion fairs; and (d) social media such as Facebook and Twitter. As a result of this component, the response of the first 2,400 users will be evaluated, and adjustments made to the application based on these customers' experience.
- 2.10 **Component IV: Dissemination and scaling up.** The goal of this component is to bring the intervention model to at least 15,600 users, primarily through expansion to some 100 materials stores, both independent businesses and distributorships associated with¹¹ leading materials companies, as well as to ensure the continuation of the other three channels launched in Component III. This component will also include coordination actions with the six lenders and at least 12 micro and small construction companies participating in the platform, to ensure a positive customer experience.

¹⁰ These stores offer free Wi-Fi to customers.

¹¹ Includes franchised, exclusive, and authorized distributorships, of such companies as CEMEX, Cruz Azul, Lafarge Holcim, Amanco, and others, as well as these companies' own distributorships.

B. Project, impact, outcomes, monitoring and evaluation

- 2.11 **Impact.** As the project's main impact indicators, at least 15,600 vulnerable persons are expected to use the technology to access a new housing improvement product or service, with a projected total investment of US\$5.75 million. Also as a result of the project, at least 16 companies are expected to introduce new housing improvement practices, including lenders, companies with construction solutions, and materials companies.
- 2.12 **Outcomes.** As a result of the project, 100 materials stores are expected to support their customers in managing their housing improvement projects using a new technology software application. It is expected that 3,700 persons will use this application to access a financial product, and 4,800 will complete at least part of their work plan. The Results Matrix details the remaining expected outcomes of the project.
- 2.13 **Monitoring and evaluation.** Habitat will report every six months on progress on the indicators identified in the Results Matrix, through project status reports (PSR). A final evaluation of the project will be conducted once 90% of the funds have been disbursed, or after 30 months of execution, whichever occurs first. The final evaluation will determine whether the impact indicators have been met. In addition, there will be two interim technical evaluations: one on the pilot phase of the prototype application, and the other on the first version. The project indicators will be broken down by gender.

III. ALIGNMENT WITH THE IDB GROUP, SCALABILITY, AND PROJECT RISKS

A. Alignment with the IDB Group

- 3.1 **With the Bank.** The project is aligned with Dimension 2 of the Bank's Urban Development and Housing Sector Framework Document (now in process of updating), "The urban population improves its housing conditions, and the quantitative and qualitative housing deficits are reduced," inasmuch as it complements the Bank's work in subsidies and new housing, seeking microfinancing business models for housing that make it possible to reach the population whose income and savings levels are below those of the population with access to subsidy programs; promotes better functioning of the rental market by making existing dwellings habitable and attractive; and allows for the testing of solutions for adaptation to climate change (resilience and mitigation) in repairs and additions. The project calls for CSD/HUD to be part of the team.
- 3.2 **With the IIC.** The project is clearly complementary with the IIC, since it could generate loans or investments in the financial sector and at construction SMEs that could subsequently receive larger IIC financing. Specifically, the IIC could provide financing to significantly increase the demand for housing improvement lending at participating private institutions.

B. Scalability

- 3.3 The project includes a scalability dimension based on partnerships with a clear capacity for scalability, including materials companies and lenders. Once the results of the interventions with five financial intermediaries have been evaluated, and the interventions have been adjusted, the program can be rolled out to cities in the states

of Veracruz, Oaxaca, and Chiapas, since these are the parts of Mexico with the greatest housing deficit. The methodology will benefit from feedback from, and be enriched by, experiences of the executing agency in other regions of the world. In addition, Habitat is structuring a seed capital and investment fund called Shelter Venture Lab,¹² intended for micro, small and medium-sized enterprises (MSMEs), in which the MIF may participate.

- 3.4 In addition, as noted, the project is expected to be scalable by the IIC through financing for financial intermediaries that successfully adapt and offer new housing improvement products through the technology app.

C. Project risks

- 3.5 The greatest risk to project implementation is that the developers of the technology tool will be unable to interpret or properly incorporate feedback from stakeholders and users on the functionality of the tool, leading to a less widely than expected degree of adoption of the app and a delay in meeting the project goals. Mitigants: Habitat has long-standing international experience in financing housing improvements, yielding lessons learned to mitigate this risk. In addition to the risk noted above, the project has the following risks:

Risk	Likelihood	Severity	Mitigation measures
During the pilot, employees of the materials stores do not provide sufficient support to users.	Low	Medium	Half of the pilot stores will be associated with CEMEX, which will facilitate replication of the incentives that work best to ensure support. For example, continued free Internet access.
The financial intermediaries participating in the program do not offer attractive financial terms for users.	Medium	High	The project will work only with financial intermediaries committed to financing housing improvement and enlargement, several of which are known to Habitat.
The cost of the construction materials rises, reducing the demand for housing improvements and enlargements.	Low	High	Awareness-raising campaign coordinated with the Mexico City government.
The housing improvement and enlargement solutions submitted by entrepreneurs in response to the thematic solicitations are not attractive to customers.	Low	Medium	The venture partner of the Village Capital Project has carried out successful experiences with thematic solicitations for ventures.

¹² The Shelter Venture Lab aims to generate high-impact, scalable housing products as well as services for low-income earners by supporting growth companies (MSMEs) with capital so that they can expand their operations in the housing value chain. The purpose of this program is to serve as a catalyst of the supply side of the housing market through small companies providing goods and services at affordable prices. The products include quality construction materials as well as water and sanitation and environmental products with value-added, such as solar panels. The services include construction, land registration, and disaster microinsurance.

D. Cost and financing

- 3.6 The total cost of the project is US\$1,050,000 in nonreimbursable technical cooperation resources, US\$550,000 (52%) of which will be contributed by MIF, and US\$500,000 (48%) by Habitat Internacional.
- 3.7 **Retroactive recognition of counterpart funding.** The project may recognize against the local counterpart up to US\$130,000 in expenditures incurred on or after 15 September.

Table 4. Project budget (US\$)

Project components	MIF	Counterpart	Total
1. Development of partnerships and adaptation of housing improvement products and services	54,000	430,400	484,400
2. Pilot of the housing improvement management app	117,400	12,900	130,300
3. Implementation of the technology tool	170,200	5,400	175,600
4. Dissemination and scaling up	75,000	0	75,000
Coordination, evaluation and monitoring	133,400	51,300	184,700
Total	550,000	500,000	1,050,000
% of Financing	52%	48%	100%

IV. EXECUTING AGENCY AND IMPLEMENTATION STRUCTURE

A. Description of executing agency

- 4.1 The project will be executed by Habitat for Humanity International (Habitat), which is committed to improving the housing conditions of the poor and vulnerable population. Habitat produces affordable houses using volunteers for construction and repairs, offers technical assistance, and promotes access to housing finance for low-income families to improve their housing conditions.
- 4.2 In Mexico, Habitat has been working in the area of housing finance and improvement through Centro de Innovación de la Vivienda [Center for Housing Innovation] (CIV), which it established to develop innovations in commercially viable models of technical assistance and financing to improve housing conditions in Mexico. CIV complements Habitat's work with new housing in coordination with the Consejo Nacional de Vivienda [National Council on Housing] (CONAVI).¹³ CIV will provide technical support for the project in Mexico in the areas of financing and technical assistance.
- 4.3 For the project, Habitat will apply lessons learned in seven countries of Latin America and the Caribbean where financial institutions have been supported in designing and implementing microfinance programs for progressive, productive, and healthy housing and access services. To date in Latin America and the Caribbean, Habitat

¹³ Habitat's experiences with the IDB and the MIF include: (a) "Comprehensive Transformation of the La Chacarita Alta Neighborhood," in conjunction with Paraguay's National Ministry of Housing (MIF project in execution); (b) "Strengthening of the Incremental Housing Construction System for the Base of the Pyramid in Peru" (project in execution, carried out with the Korean Poverty Reduction Fund) with MiBanco and others; (c) "Increasing Access to Home Improvement Financing for the Base of the Pyramid," with Asociación HPH El Salvador ("HPHES") to finance housing improvement investments and mitigate the housing deficit (in execution).

has placed more than 473,000 housing improvement microcredits, mobilizing US\$982.5 million from the private sector for this purpose. The executing agency will apply a market study and product design methodology that it has developed and successfully applied globally (<http://www.habitat.org/cisf>). This will be complemented by the MIF's experience in designing finance products to promote planned savings and lending innovations in the use of mobile transaction and communications channels. In addition, Habitat is structuring a seed capital and investment fund called Shelter Venture Lab, intended for MSMEs, which will become an additional partner for this project in Mexico, encouraging the entry of new construction entrepreneurs.

- 4.4 As a result of these projects and other international experiences, Habitat has generated lessons learned that will be taken into account in this project. These lessons include the following: (1) a program for financing housing improvements should generate a positive contribution to the net interest income of the entity, making the program attractive to implement and roll out to other areas; (2) a proposal for microfinance institutions to incorporate a nonfinancial product or technical assistance should generate incentives to overcome resistance from loan officers, since working capital loans are "easier" and require less personal effort; (3) an entity that finances housing improvements should ensure that the self-construction process has technical assistance to guarantee the quality of the improvement, so it is necessary to include other stakeholders from the value chain.

B. Structure and implementation mechanism

- 4.5 Habitat for Humanity International has the necessary structure to execute the project activities and manage the resources effectively and efficiently. Habitat will also be responsible for delivering status reports on project implementation. The details of the structure of the execution unit, the diagnostic needs assessment (DNA), and the requirements for the status reports can be found in the project technical files. Habitat International's central headquarters are in Atlanta, and its regional headquarters are in Costa Rica, where it will perform the accounting and fiduciary management of the project.
- 4.6 In addition to Habitat and CIV, the following will be key stakeholders: (a) materials suppliers; (b) construction advisors and workers; (c) lenders; (d) families; (e) SMEs; and (f) the IDB/MIF. The materials distribution stores will make the application available to their customers and advise them on using it to plan their housing project, tying it to the sale of construction materials at affordable prices. Technical advisors, construction workers, entrepreneurs focusing on construction solutions, and financial institutions will be linked to the project through the software application. Specifically, the participating financial institutions will diversify their portfolio of financial products, including a housing product with add-on services, offered through the platform and serving the families in the selected municipios, participating in the development of the customer self-qualification module in order to select a loan.
- 4.7 Throughout project execution, the families will provide feedback on developing and improving the app and validate that the participants are of interest to them and the supply of products and services is in line with their needs, preferences, and capabilities (demand). In addition, the families will be the ones buying the materials, contracting construction and labor advisory services, and executing the housing improvements. The end result should be that they experience an improvement in

their living conditions, as well as higher quality improvements at a lower cost and access to adequate financing.

- 4.8 The MIF will participate in review, feedback, and validation of the tools, inputs, and outcomes of the project, contributing its experience in each of these areas. In addition, the MIF and Habitat will manage the partnerships with key stakeholders.

V. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 5.1 **Results-based disbursements and fiduciary arrangements.** The executing agency will commit to the standard MIF arrangements regarding results-based disbursements, procurement, and financial management, as specified in the technical file. The table of milestones is available in the project technical files.

VI. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

- 6.1 **Access to Information.** The project information will be public.
- 6.2 **Intellectual property.** The MIF and Habitat for Humanity will retain the intellectual property of the technology tools developed with the project's resources, in order to ensure that these tools are made available to the beneficiary population in Mexico and eventually in other countries. During execution, a commercial distribution license, free of charge for the user, may be assigned to materials companies and technology companies able to host the software application, in order to facilitate ongoing access.