

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**MEXICO**

**PROGRAM TO STRENGTHEN URBAN DEVELOPMENT AND  
LAND-USE MANAGEMENT REFORM**

**(ME-L1266)**

**LOAN PROPOSAL**

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## ABBREVIATIONS

COFEMER	Federal Regulatory Improvement Commission
CONAFOR	National Forestry Commission
CONAVI	National Housing Commission
DNP	National Planning Department
DOF	Official Gazette of the Federation
ENOT	National Land-use Management Strategy
ESMR	Environmental and Social Management Report
ESS	Environmental and Social Strategy
INEGI	National Institute of Statistics and Geography
LGAHOTDU	General Law on Human Settlements, Land-use Management, and Urban Development
NOM	Official Mexican Standard
OECD	Organization for Economic Cooperation and Development
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PCR	Project Completion Report
PDU	Municipal Urban Development Program
PEOT	State land-use management programs
POT	Land-use management plans
RPP	Public Property Register
SEDATU	Department of Agricultural, Territorial, and Urban Development
SEDESOL	Department of Social Development
SEMARNAT	Department of the Environment and Natural Resources
SHCP	Department of Finance
SITU	Territorial and Urban Information System

**PROJECT SUMMARY**  
**MEXICO**  
**PROGRAM TO STRENGTHEN URBAN DEVELOPMENT AND LAND-USE MANAGEMENT REFORM**  
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Financial Terms and Conditions				
Borrower: United Mexican States			Flexible Financing Facility <sup>(a)</sup>	
			Amortization period:	Bullet payment on 15 October 2029
Executing agency: Department of Agricultural, Territorial, and Urban Development (SEDATU)			Disbursement period:	12 months
			Grace period:	Bullet payment on 15 October 2029 <sup>(b)</sup>
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	600,000,000	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
Total:	600,000,000	100	Weighted average life (WAL):	Up to 11.5 years
			Currency of approval:	U.S. dollars from the Ordinary Capital
Project at a Glance				
<b>Project objective/description:</b> The objective of this programmatic series is to lay the foundations for the strengthening of a new territorial and urban development model that is comprehensive, inclusive, resilient, and sustainable.				
The first operation will support development of the framework for implementing the General Law on Human Settlements, Land-use Management, and Urban Development (LGAHOTDU) and the drafting of its regulations, including: (i) regulatory development; (ii) the strengthening of intergovernmental and interagency coordination; (iii) the creation of legal instruments for urban development and land-use management; and (iv) the development of information systems for territorial planning. For the second operation, SEDATU will continue the regulatory process that will ensure implementation of the LGAHOTDU instruments, consolidating its position as the agency responsible for land-use management in the country.				
This operation is the first in a series of Programmatic Policy-based Loans (PBP) that will consist of two contractually independent and technically linked loans.				
<b>Special contractual conditions precedent to the single loan disbursement:</b> A special contractual condition precedent to the single disbursement of the loan for the first operation in the series will be compliance with the policy reform conditions, as established in the Policy Matrix (Annex II), and the other conditions indicated in the respective loan contract (paragraph 3.2).				
<b>Exceptions to Bank policies:</b> None.				
Strategic Alignment				
Challenges: <sup>(d)</sup>	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>
			EI	<input type="checkbox"/>
Crosscutting themes: <sup>(e)</sup>	GD	<input checked="" type="checkbox"/>	CC	<input checked="" type="checkbox"/>
			IC	<input type="checkbox"/>

<sup>(a)</sup> Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

<sup>(c)</sup> The credit fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic context.** In 2017, the Mexican economy displayed resiliency in an adverse environment. The gross domestic product (GDP) grew by an estimated 2.3% in 2017, a rate lower than in 2016 (2.7%). The economy continued to grow, buttressed by private consumption and exports, although it was impacted by two major earthquakes and the uncertainty created by the process of renegotiating the North American Free Trade Agreement. Growth estimates for 2018 are in the 2% to 3% range.
- 1.2 In monetary policy, inflation accelerated in 2017, closing at 6.8% per year (versus 3.4% in 2016), a level above the central bank's target range (3%+/-1%). This bump was due primarily to the transfer of exchange rate depreciation to the price of goods, the deregulation of energy prices, and the supply-side shocks for certain agricultural goods. In response, Bank of Mexico increased the monetary policy rate on five separate occasions, bringing it to 7.25% at the end of 2017. Inflation is expected to begin to slow in 2018, ending near the upper end of the target range (4%).
- 1.3 In fiscal terms, the government pursued a consolidation policy in 2017, obtaining a primary surplus that cut the public debt from 50.1% of GDP in 2016 to 48.0% in 2017. It intends to continue this strategy in 2018, with a primary surplus target of 0.9% of GDP and an additional reduction in the public debt to 47.3% of GDP.
- 1.4 The central bank expects the balance of payments in 2017 to show deficits in the balance of trade and current account of 0.9% and 1.7% of GDP, respectively. These figures are expected to be 1.0% and 2.1% of GDP, respectively, in 2018. Thus, no future imbalances are anticipated in the external accounts, due in part to the flexible exchange rate policy and the 14% depreciation in the peso over the past two years.
- 1.5 Poverty has fallen in the past six years but is still a reality for nearly half of the Mexican population. According to the National Social Development Policy Evaluation Board, 43.6% of the population was living in poverty in 2016, the lowest figure since 2010. In absolute terms, the number of poor in 2016 stood at 53.4 million – 1.9 million less than in 2014, but greater than in 2012 and 2010. Extreme poverty fell proportionally and in absolute terms, affecting 7.6% of the population, or 9.4 million people in 2016. By federative entity, poverty fell in 27 of the 32 states, and extreme poverty, in 31 (all except Tabasco, which was affected by the oil crisis). The decline in poverty between 2014 and 2016 was due basically to the recovery of household purchasing power, thanks in good measure to the historic drop in inflation (a historic annual low of 2.1% in 2015) and higher levels of formal employment (an average of 697,000 jobs annually in the period 2014-2016).
- 1.6 **Diagnostic assessment of the land use problem.** Mexico has significant imbalances in land use and faces serious challenges in territorial management. The country has experienced rapid urban growth, with the urban population multiplying 55 times between 1900 and 2010. Today, 77.8% of Mexicans live in urban areas, representing a 20 percentage-point increase in 50 years. The territory's land occupation model has been characterized by the disproportionate, fragmented, and unplanned growth of urban sprawl. While the country's urban population doubled between 1980 and 2010, the area occupied by cities increased seven times over. In some cities, this low-density peripheral growth is more concerning, with urban areas

increasing up to 25 times, while their populations have increased only 3.3 times (Department of Social Development [SEDESOL], 2012).

- 1.7 This expansive urban growth has had a negative impact on several aspects of Mexico's development. First, housing policy has not been accompanied by mechanisms to ensure access to well-situated developed land; this has increased residential segregation,<sup>1</sup> pushing low-income housing to the periphery and driving demand for informal housing.<sup>2</sup> Some 34% of households (IDB, 2012), largely with qualitative needs related to the lack of residential services, are affected by the housing shortage. Moreover, 15% of the housing inventory is vacant, due to its location in areas without services far from employment centers (Organization for Economic Cooperation and Development [OECD], 2015; Herbert et al., 2012).
- 1.8 The territorial growth pattern has also contributed to the precarious financial situation of Mexican municipios. Fragmented urban areas produce major cost overruns in residential service delivery. According to estimates, if a city were to cut the expansion of its footprint by half, it would save around 30% in infrastructure investment costs, while operating and maintenance costs could be reduced by up to 68% (SEDESOL, 2012). For example, in Los Cabos, Baja California, to meet drinking water and sanitation needs in 2040, a compact city model would require 282 linear km of additional pipes, at a cost of Mex\$419 million, compared to a horizontal city model, which would require 692 linear km, at a cost of Mex\$702 million<sup>3</sup>.
- 1.9 The growth model of Mexican cities has also had a negative impact on the levels of well-being and productivity correlated with people's distance from their jobs, resulting in long commutes (Dobbs, et al., 2012). A national mobility and transportation survey conducted in 2014 indicates that the average commuting time in the country is 44 minutes (IIJ-UNAM, 2015), longer than in the OECD countries (28 minutes) ([OECD Family Database](#)). Numerous studies have shown that expansive growth patterns marked by low density and insufficient mixed land use increase the number of daily trips (Chatman, 2008; Crane and Crepeau, 1998). A high number of trips and long commutes have negative repercussions on a population's quality of life, impacting variables such as health and pollution. As a potential response, a compact growth pattern that doubles residential densities, for example, could reduce the number of miles driven by car by 5% to 12% (Gomez-Ibáñez and Humphrey, 2009).
- 1.10 The increase in commuting distances caused by an expansive growth model also entails greater use of cars and, thus, higher levels of greenhouse gas emissions.<sup>4</sup>

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<sup>1</sup> Cambios en la segregación residencial socioeconómica en México. L. Sánchez Peña. Edición Vol. 3 Núm. 2 2012. National Institute of Statistics and Geography (INEGI).

<sup>2</sup> The unregulated subdivision of collective farm land in periurban areas—which accounts for two-thirds of periurban land—contributed to the development of informal land tenure (more than 70% of the land on which cities have grown is held informally). La Urbanización Social y Privada del Ejido. Ensayos sobre la Dualidad del Desarrollo Urbano en México. UNAM. 2015.

<sup>3</sup> Estudio de Implicaciones de los Modelos de Crecimiento en el Costo de Infraestructura: Caso de Estudio Los Cabos, Mexico, SEDESOL, 2012.

<sup>4</sup> Mexico's emissions are equivalent to 665 MtCO<sub>2</sub>e/year (INECC, 2013), 3.9% of which correspond to the residential and business sector and 4.9% to changes in land use. Low-density urban expansion also impacts other sectors, such as vehicular transport, which accounts for 23% of emissions.

Medina (2012) finds a negative correlation between density and energy consumption and transportation use. International evidence shows that doubling residential densities can reduce the use of motorized transportation per household by 20% to 40% (Gottodiener and Bud, 2005). It has likewise been found that doubling a neighborhood's density results in a 30% to 40% reduction in the use of private vehicles per household (UN-Habitat, 2011). The territorial development pattern in Mexico has created other challenges for sustainability. For example, the informal occupation of environmentally valuable natural areas<sup>5</sup> reduces the uses of land with a greater capacity to absorb greenhouse gases and other polluting gas emissions (Des Fries et al., 2010).

- 1.11 Unplanned horizontal expansion has also heightened the vulnerability to climate change and extreme phenomena. As shown in the Urban Development and Housing Sector Framework Document (document GN-2732-6), a significant proportion of vulnerable groups resides in informal urban settlements far from city centers and is often at high risk from extreme events.<sup>6</sup> Poor land-use planning in Mexico has resulted in the appearance of many settlements in at-risk areas such as riverbanks and unstable ravines, with devastating social and economic costs when disasters strike.
- 1.12 This is important, since Mexico often experiences major earthquakes and tropical storms<sup>7</sup> (OECD, 2013). In fact, between 1980 and 2017, the country was hit by 208 large-scale disasters, 80% of them caused by hydrometeorological phenomena (draughts, floods, and storms) and 30% by geophysical events (earthquakes, volcanic eruptions, and landslides). These disasters resulted in more than 15,700 deaths, affected some 17 million citizens, and produced economic losses of US\$46 billion (EM-DAT, 2017). In the components of the Global Climate Risk Index developed by *Germanwatch*, Mexico is ranked sixth globally in the period 1991-2010 in terms of major losses in absolute value due to climate events. In terms of seismic risk, 50% of its territory and 33% of its population are exposed to major threats. In 2017, two major earthquakes struck Mexico, resulting in the collapse of more than 2,500 houses, 800 schools, and 50 hospitals.<sup>8</sup> Recent studies indicate that the future losses associated with these disasters could be as high as 8% of GDP.<sup>9</sup>
- 1.13 Unplanned horizontal expansion has made it hard to bridge gender gaps.<sup>10</sup> Even though women's participation in the labor market has increased over the past 40 years, the inequalities linked with their unremunerated work in the home have

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<sup>5</sup> Gross annual deforestation in Mexico in the period 2007-2011 was 348,013 ha (CONAFOR, 2015). Forests have been cut down to expand areas for agricultural use, tourism, and urban and industrial use.

<sup>6</sup> In Mexico, 11% of the urban population lives in informal settlements (World Bank, 2014).

<sup>7</sup> Mexico is one of the countries with the greatest seismic activity in the world, accounting annually for 6% of all earthquakes of a magnitude greater than 4 on the Richter Scale [...] four hurricanes per year that affect over 60% of the nation's territory. Each year, Mexico experiences 500 floods, and 35% of its territory is subject to intense droughts. Disaster risk management sector note (2013). IDB.

<sup>8</sup> [Protección Civil de Mexico and ECHO Daily Flash Report](#).

<sup>9</sup> Luis Galindo (2009). La economía del cambio climático en Mexico. SERMANAT. Mexico City.

<sup>10</sup> The gender gap is the widest it has been in four years. Mexico has fallen 15 places to 81st out of 144 countries, closing less than 6% of its gap. The most significant setbacks have been in participation levels and economic opportunities, the health index, and political empowerment. World Economic Forum, 2017.



persisted.<sup>11</sup> The location of housing in areas far from urban centers has exacerbated these conditions, obliging women to make numerous trips daily to tend to household needs. In this sense, the inefficiency and poor coverage of public transportation are still a major impediment to women's mobility.<sup>12</sup> Likewise, the quality of housing and related facilities has continued to increase their domestic burden.<sup>13</sup> Lastly, public spaces have not provided the proper conditions for integrating the gender perspective. One out of four women has been subjected to verbal abuse in public spaces, and being mugged is one of women's greatest fears (31%).<sup>14</sup> This combination of facts partially explains why many women limit their movements and, hence, their opportunities, with the resulting social and labor market exclusion.

- 1.14 **The importance of land-use management.**<sup>15</sup> Land-use management policies in Mexico have not been sufficient to remedy the uneven land-use patterns and their adverse impacts, due to serious weaknesses in four dimensions key to good land management: (i) regulations; (ii) coordination among government levels; (iii) implementation; and (iv) information systems.
- 1.15 With regard to regulations, the legal framework for land-use management has traditionally been fragmented. Despite the creation of a federal legal mechanism in 1976 to regulate the organization of national land with the enactment of the General Law on Human Settlements,<sup>16</sup> the focus was on regulating urban settlements in response to rapid urbanization (Rebora, 1978). The rural sector, especially in its ecological dimension, was addressed in the Federal Environmental Protection Law<sup>17</sup> of 1982 and the General Law on Ecological Balance and Environmental Protection<sup>18</sup> of 1988 (Wong, 2009). These two legal mechanisms evolved in parallel, resulting in disjointed land-use policy. The urban environment came to be governed by municipal urban development programs (PDU), and the rural ecological environment, by ecological land-use management plans coordinated by the Department of the Environment and Natural Resources (SEMARNAT). This lack of coordination has hindered: (i) the regulation of land use; (ii) definition of the spheres of action among government levels; and (iii) inclusion of the territorial dimension in public sector planning and management instruments (Wong, 2009).
- 1.16 The coordination of land-use management among government levels has been very poor. Although the legal framework in effect up to 2016 gave concurrent powers to

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<sup>11</sup> If remunerated and unremunerated work are taken together, women's total work week comes to almost 60 hours and men's, 50 (INMUJERES- INEGI Mujeres y Hombres en México, 2012). Women engage in remunerated activities in lower proportions, with a participation rate of 43.5% versus 77.5% for men (INEGI. Encuesta Nacional de ocupación y empleo, 2012).

<sup>12</sup> La perspectiva de Género en el Urbanismo. Una Aproximación Conceptual Adaptada. Susana García Bujalance and Lourdes Royo Naranjo. 2012.

<sup>13</sup> Considering housing without direct access to piped water, the hours that women devote to domestic chores are estimated to increase by 15% (INMUJERES, based on INEGI. Encuesta Nacional sobre Uso del Tiempo, 2009, Mexico).

<sup>14</sup> Consejo Nacional para Prevenir la Discriminación. Encuesta Nacional sobre la Discriminación en México (ENADIS), 2010, Mexico.

<sup>15</sup> Mexican law defines this as "a public policy whose objective is the occupation and rational use of land as the spatial basis for socioeconomic development and environmental conservation strategies."

<sup>16</sup> Published in the Official Gazette of the Federation of 26 May 1976.

<sup>17</sup> Published in the Official Gazette of the Federation of 1 November 1982.

<sup>18</sup> Published in the Official Gazette of the Federation of 28 January 1988.

the national, state, and municipal governments, there were no specific mechanisms to ensure the consistency of land-use regulations. Land-use planning was not conceived as a hierarchical system in which municipal plans were derived from state plans, and these, in turn, from the federal plan, and there were no mechanisms to coordinate the consistency among them. This resulted in a multitude of planning levels that did not necessarily employ comparable technical criteria. General planning at the national level has employed tools such as the National Development Plan and National Urban Development Program. In parallel, each of the 32 states should have its own land-use management and/or urban development plans and/or programs. Each of the country's 2,463 municipios, in turn, should have its own PDU, with an even larger number of partial programs for specific areas of development or consolidation. As a result, there may be no less than 5,000 different instruments for land-use management that are not necessarily consistent with each other, because they were developed separately without common criteria.

- 1.17 Furthermore, the growing urbanization in Mexico has led to the growth of metropolitan areas where two or more municipios or federative entities converge (Iracheta, 2010). Mexico currently has 59 metropolitan areas made up of 367 municipios, which together contain 57% of the country's population—this in contrast to the 12 metropolitan areas with 26% of the population in 1960. This phenomenon has intensified in the absence of planning and financing instruments that facilitate joint strategic planning to ensure adequate delivery of urban goods and services.
- 1.18 As a result, the implementation of legal mechanisms in plans that effectively regulate land use has been inadequate. According to information from the Department of Agricultural, Territorial, and Urban Development (SEDATU) (2014), of the 384 urban centers that make up the national urban system, 78% have PDUs prepared and 51% have legal PDUs in force (that is, registered in the Public Property Register (RPP)). Moreover, 54% of the plans were drafted prior to 1999 and only 34 of the 59 metropolitan areas (57%) have updated them. Only 523 of the 2,463 municipios have a PDU that was prepared after the year 2000, and in only one state (Zacatecas) do all municipios have an up-to-date land-use management instrument. Furthermore, these plans do not include effective measures for penalizing noncompliance and, thus, in many cases have been ineffective.
- 1.19 The outdated condition of instruments and lack of coordination among government levels can be seen in the example of the State of Mexico, where the state PDU was approved in 2008, but the majority of municipal PDUs were approved earlier and not updated after the creation of the state program. Moreover, 7 of its 125 municipios do not have a PDU that was prepared after 2000.
- 1.20 With regard to land-use management information systems, there is a marked lack of coordination among different sources and entities. The information on land ownership is fragmented. For example, the National Agricultural Register manages cadastral and registry information on community-held property (collective and communal farmland), which accounts for 51% of the nation's territory; the Institute for the Administration and Appraisal of National Property handles the information on federal government properties, which account for 4.2% of Mexico's territory; and lastly, each of the state governments and some municipios have a public register and cadaster of private property, which accounts for 44.8% of the territory.

- 1.21 These are incompatible databases whose systems are not interoperable. As a result, there is inconsistent information about the same piece of property, changes in street names, measurement errors (for example, physical references), inconsistency in the abbreviations used in given and family names, the use of private contracts for the transfer of ownership, and buildings that are not registered with the municipal authority (Duran, 2015). According to SEDATU, the average progress in modernizing registration<sup>19</sup> is 53.69%, and according to the World Bank (2017), Mexico ranks 101st out of the 190 countries evaluated in terms of property registration. Only 15 states currently have online RPP services. As for the cadaster, the average progress in modernization<sup>20</sup> is 39.35%; only 11 states have open online cadastral data services, and an estimated 90% of municipios do not know the cadastral value of their territory (Duran, 2015). This contributes to the low property tax revenues in Mexico, which are just one seventh of the average for the OECD countries.<sup>21</sup>
- 1.22 **Land-use management and urban development reform.** The Government of Mexico has stressed the need for balanced territorial development and created SEDATU for this purpose in 2013. This department is responsible for the design and implementation of metropolitan, urban, agricultural, and housing development policies, as well as the administration of national lands.
- 1.23 On 28 November 2016, the General Law on Human Settlements, Land-use Management, and Urban Development (LGAHOTDU) was published, representing a major milestone in the government strategy to reform territorial and urban development policy. The product of a decade of research and consultations, this law marks the start of urban reform and lays the foundations for a new comprehensive, inclusive, resilient, and sustainable development model. The LGAHOTDU supersedes the General Law on Human Settlements<sup>22</sup> of 1976. With 119 articles under 13 chapters, this new law is intended to create a new institutional framework, reflected in specific instruments that will promote balances of power and influence in the country by linking ecological planning and urban development through land-use management—a new concept in the country’s legal framework; the regulation of municipal power vis-à-vis the other levels of the federation; control of the subdivision of agricultural land; the redefinition of responsibilities among public and private interests; citizen participation in the definition and monitoring of urban policies; and access to public information. The LGAHOTDU also reaffirms the

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<sup>19</sup> Nine criteria are used to measure the modernization of registration: (i) the legal framework; (ii) registration processes; (iii) information technologies; (iv) quality management; (v) professionalization of the registration function; (vi) institutional policies; (vii) participation and engagement with other sectors; (viii) document management and records; and (ix) performance indicators.

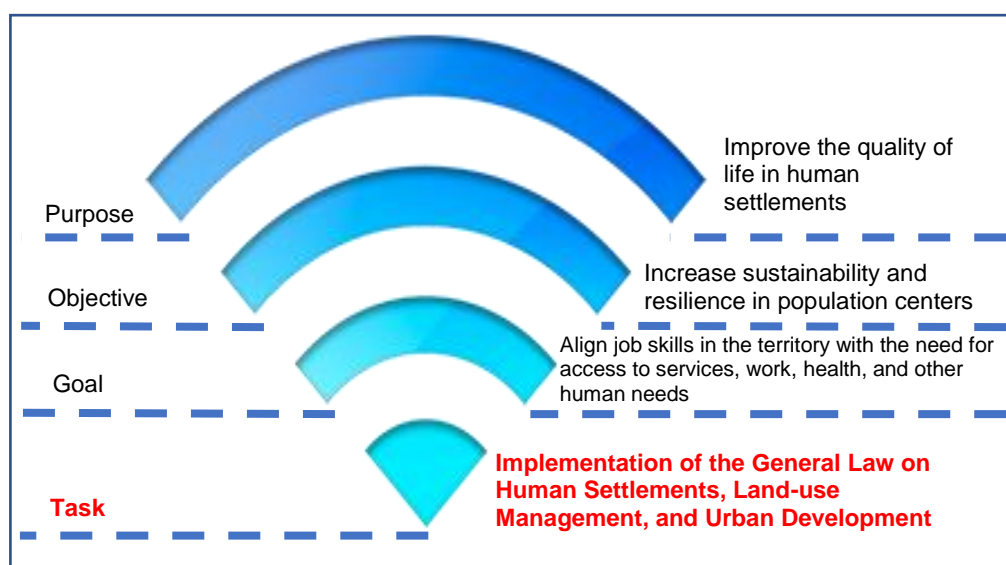
<sup>20</sup> Seven criteria are used to measure cadaster modernization: (i) the legal framework; (ii) cadastral processes; (iii) information technologies; (iv) link with the RPP-cadaster; (v) professionalization of the cadastral function; (vi) quality assurance; and (vii) institutional policies.

<sup>21</sup> 0.13% of GDP vs. 1% of GDP. OECD, 2013.

<sup>22</sup> Published in the Official Gazette of the Federation of 26 May 1976.

country's commitment to the gender perspective,<sup>23</sup> which is a key crosscutting theme in the proposed urban reform.<sup>24</sup> This law therefore represents fundamental progress toward attenuating the four weaknesses in land-use management described earlier, and its implementation is essential for tackling the problem described in the diagnostic assessment presented in Figure 1.

**Figure 1. Reform Objectives.**



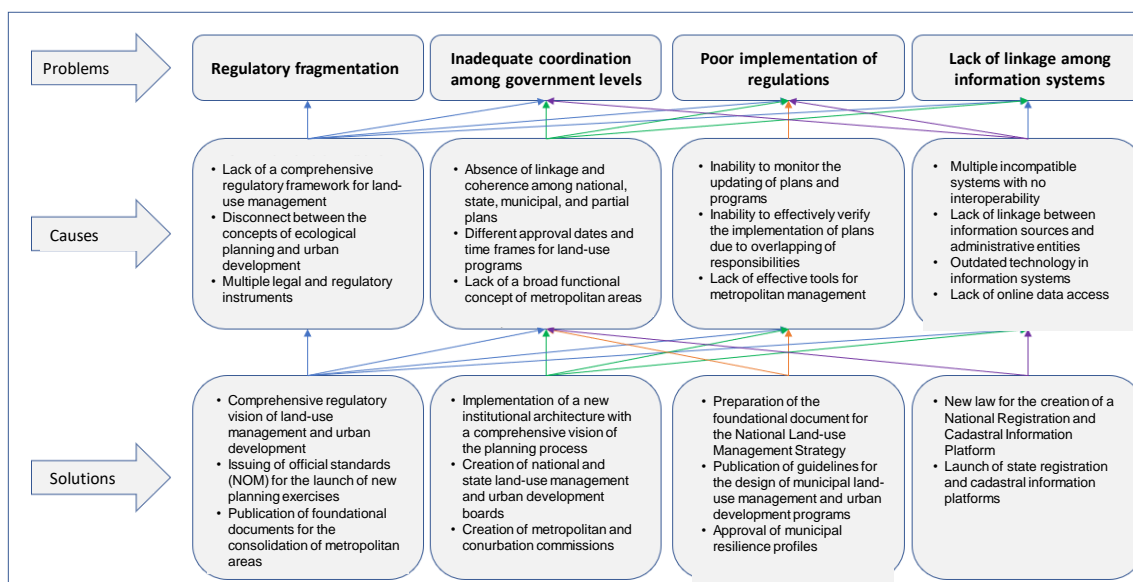
Source: Prepared by the IDB project team.

- 1.24 Implementing the LGAHOTDU involves a set of specific solutions to problems in the four key dimensions for appropriate land-use management, as described below. Figure 2 summarizes this information, indicating the tasks required for its implementation and how they are related to the causes of the problems described in the diagnostic assessment and their solutions.

<sup>23</sup> The National Development Plan 2013-2018 includes the gender perspective as a crosscutting theme that must be part of sector, institutional, regional, and special programs. The goal of the National Equal Opportunities and Nondiscrimination against Women Program 2013-2018 (PROIGUALDAD) is to include the gender perspective through affirmative action in different sectors, such as housing, urban mobility, and public spaces.

<sup>24</sup> LGAHOTDU Articles 4, 10, 15, 20, and 71.

**Figure 2. Implementation of the LGAHOTDU – Task Map**



Source: Prepared by the IDB project team.

- 1.25 With regard to regulation, the LGAHOTDU introduces and develops the concept of land-use management and strengthens the federal government's role in the regulation thereof. Land-use management is defined as the coordination of ecological land use and urban development, removing the disconnect between these areas. It also establishes an explicit hierarchy among the legal frameworks for land-use management across the three levels of government—federation, states, and municipios—guaranteeing their consistency. With the implementation of the LGAHOTDU, the country will have a body of 32 state land-use management and urban development laws and a series of regulations that will consecutively govern land use at the federal and local levels.
- 1.26 The LGAHOTDU establishes a direct link with the General Law on Ecological Balance and Environmental Protection that will be reflected in territorial development plans and programs. It also promotes a comprehensive vision of each local territory, which can be expressed in the planning exercise. Moreover, it presents economic development as a structural element of the reform, promoting innovative projects, prioritizing areas with economic potential, and including productivity promotion strategies in planning exercises.
- 1.27 The LGAHOTDU also gives SEDATU the mandate to issue regulations on land use that govern the location of human settlements and the founding, preservation, improvement, and growth of such settlements. It likewise spells out the principles for determining the provisions, reserves, uses, and purposes of areas and landholdings—principles that regulate ownership and lay the foundations for social participation in land-use management. Particularly important is the power granted to SEDATU to develop Official Mexican Standards (NOM), which are technical regulations “that are compulsory, issued by the competent agencies, that establish the rules, specifications, attributes, guidelines, characteristics, or requirements

applicable to a product, process, facility, system, activity, service, or production method or operation, as well as to terminology, symbology, packaging, marking, or labeling.”

- 1.28 The LGAHOTDU also authorizes the updating of: (a) guidelines; (b) operating rules; and (c) guides for implementing the necessary changes in public activities, as prescribed in the law. These tools provide clarity on the activities, stages/phases, and obligations of the responsible agencies and are defined as follows:
- a. Guidelines are normative instruments and part of the regulatory process. They set the criteria that must be followed in public-sector activities. They are issued when the need to define specific actions derived from a more general regulation arises or when they are necessary for government operations.
  - b. Operating rules are a tool for implementation through provisions that specify how all programs executed by the federal government will operate, either directly or through coordination agreements or arrangements with the governments of the federative entities, in order to achieve the desired levels of effectiveness, efficiency, and transparency.
  - c. Guides are a management tool that have a facilitating function and contain recommendations for execution, activities, or compliance with obligations and procedures.
- 1.29 In addition, the LGAHOTDU includes land-use management and urban development concepts and practices that have been gaining ground domestically and internationally due to their importance in public policy. They include: (i) resilience; (ii) mobility; and (iii) public space.
- 1.30 With regard to resilience, the LGAHOTDU starts with a precise definition of the term and establishes a series of measures for increasing it, making it a crosscutting element in any land-use management policy. To highlight the importance of this concept, the LGAHOTDU devotes a complete chapter to it and includes prevention and disaster risk reduction in human settlements. The LGAHOTDU requires local legislation to establish comprehensive disaster risk management strategies that include relocation. It also creates a legal framework for all levels of government and institutions with any impact on land-use management and urban development—a framework that requires consideration of criteria that promote resilience to extreme natural events, not only in public policy in general, but in public works and infrastructure development, licensing and concessions, and other activities that could impact communities’ capacity to respond to natural or man-made risks.
- 1.31 The LGAHOTDU also has a special chapter on mobility and addresses basic elements of inclusion such as universal access, which requires the consideration of mobility and transportation patterns in urban planning. This is essential at a time when the need to improve the quality of life in urban centers and reduce emission levels under the climate change agenda requires that urban planning include mechanisms to reduce travel, optimize public transportation, and encourage nonmotorized mobility.
- 1.32 With respect to public space, the LGAHOTDU represents the first time that this concept has been included with a comprehensive vision that impacts all public policies. With a chapter devoted exclusively to this concept, the law designates the

creation, recovery, maintenance, and protection of public space as a priority. This is essential for social inclusion and alignment with the climate change agenda, since maintaining public spaces also requires the protection of green areas that absorb emissions and the prevention of informal settlements that reduce the capacity for adaptation in response to extreme events.

- 1.33 The LGAHOTDU also includes and defines 10 principles of public policy never before seen in the legal framework for planning in Mexico: (i) the right to the city; (ii) equity and inclusion; (iii) the right to urban property; (iv) coherence and rationality; (v) democratic participation and transparency; (vi) productivity and efficiency; (vii) the protection and gradual expansion of public space; (viii) resilience, urban safety, and disaster risk reduction; (ix) environmental sustainability; and (x) universal access and mobility. It should also be noted that these principles and their definitions are not only valuable but compulsory for the federal government and immediate executing agency, as well as all levels of government and any institution, regardless of the sector involved. In other words, the LGAHOTDU vision is to develop a comprehensive legal framework for public policy consistent across multiple sectors and levels of government.
- 1.34 The LGAHOTDU regulates the autonomy of municipios, promoting intergovernmental and interagency coordination with a focus on consensus building and citizen and multi-institutional participation, with dedicated entities creating a new institutional framework for land-use management. By guaranteeing the alignment of local and state programs with a long-term vision, the LGAHOTDU creates a hierarchical planning system under citizen control.
- 1.35 To improve coordination among levels of government, the law devotes a chapter to setting clear standards for consistent action among the federal, state, and municipal governments, as well as mechanisms for coordination and consensus building among them. This allows for unprecedented clarity about each level of government's authority over the territory and prevents the implementation of disjointed public policies. This chapter also includes a section that establishes mechanisms for consensus building and empowers federal, federative, and municipal agencies to sign coordination agreements and arrangements.
- 1.36 Related to this, the LGAHOTDU represents the first time that agencies have organized to ensure citizen participation and the coordination of responsibilities among the different levels of government and sectors involved in land-use management. To this effect, the law creates new bodies, such as: (i) the National Land-use Management and Urban Development Board; (ii) state land-use management and urban development boards; and (iii) municipal urban development and housing boards.
- 1.37 It also acknowledges the existence of metropolitan areas and creates a planning, regulatory, and land-use framework to address the challenges facing major cities. In particular, it emphasizes a new metropolitan governance model that lays the foundations for agencies and municipios to coordinate with each other in metropolitan management, creating a new type of entity for this purpose: metropolitan commissions.

- 1.38 The measures outlined in the LGAHOTDU together strengthen SEDATU's authority and the capacity of state governments while fully respecting municipal authority—a very important issue in Mexico, given its federal and municipal tradition.
- 1.39 In terms of implementation, the LGAHOTDU mandates that states and municipios conduct comprehensive, current planning exercises consistent with federal guidelines, using a series of tools to address territorial imbalances. For the first time, the implementation of planning is accompanied by a sanctions regime for noncompliance. With the implementation of the law, within a stipulated time period, all 32 states, 59 metropolitan areas, and 205 municipios with a population of more than 100,000 will have land-use management and urban development programs to govern activities financed with federal funds and those of agencies that finance housing for workers. This will have a major impact on the country's urban development pattern. The LGAHOTDU also states that all municipios with a population of more than 50,000 must have planning instruments consistent with the law.
- 1.40 The LGAHOTDU outlines a system of land-use management and urban and metropolitan development in which all the plans and programs of the three levels of government converge through the following instruments: (i) the National Land-use Management Strategy (ENOT); (ii) state land-use management and urban development programs; (iii) programs for metropolitan areas or conurbations; and (iv) urban development plans or programs.
- 1.41 These instruments aim to guarantee the existence of a regulatory and institutional structure that supports proper implementation of public land-use management policy. Special mention should be made of ENOT, which for the first time will establish a territorial frame of reference with the National Development Plan and all sector and regional programs in this field. ENOT, which will be developed with a 20-year horizon, should: (i) identify urban-rural systems, as well as the regionalization that characterizes the country; (ii) establish specific measures for sustainable development of the regions; (iii) propose guidelines for the necessary infrastructure, equipment, and facilities; and (iv) establish mechanisms for cross-sector implementation and outcome assessment.
- 1.42 It should be noted that ENOT will not be an instrument designed at the national level and sent to the states and municipios; instead, all levels of government will take part in its drafting and approval. This will enable it to meet the diverse needs of the territory without losing the consistency that the National Development Plan requires for implementing national public policy.
- 1.43 The LGAHOTDU contains many other provisions that promote proper implementation of public land-use management and urban development policies, but an additional one worth mentioning is a new framework for proactive citizen participation, not only in design and planning, but in the execution stage as well. Unlike in many other areas, in land-use management, every individual or legal entity will have standing to report any action or omission that violates the LGAHOTDU. The law, moreover, states that the three levels of government will promote social oversight mechanisms to ensure regulatory compliance. It also stresses gender equity through its participation in efforts to design projects and plans that consider gender differences in the use of public space.



- 1.44 With regard to information systems, the LGAHOTDU provides for the creation of the new National Registration and Cadastral Information Platform under SEDATU, which requires all levels of government and the new metropolitan governance entities to take the necessary steps to guarantee the interoperability of the information that they produce. This will guarantee public access to information on land-use management, facilitating implementation of their programs, accountability, and transparency.
- 1.45 As part of the platform, the LGAHOTDU also stipulates the creation of the Territorial and Urban Information System (SITU) to organize, update, and disseminate indicators on land-use management. Having the force of law, implementation of the platform and SITU will put a halt to the current fragmentation of information.
- 1.46 The platform is a legal, operational, and technological instrument for concentrating geospatial information and the databases of participating agencies and bodies in a single site. SITU will be part of this platform, and its integration will be modular and thematic, meaning that data and indicators on urban development and state metropolitan, and municipal PDUs will be included. Thus, the platform will be essential to the spatial analysis of public policies and the integration of key factors in decision-making.
- 1.47 **The effectiveness of land-use management.** International experience shows that the existence of a comprehensive regulatory framework is key to the orderly growth of cities and better land use. For example, an evaluation by Colombia's National Planning Department (DNP) shows that higher-quality urban land has been created as a result of Law 388 of 1997. This law also increased the number of Colombian municipios that have their own regulatory instrument and improved the country's urban planning systems in three areas: (i) the protection of strategic environmental areas; (ii) the protection of goods that are part of the national heritage; and (iii) new consideration of public space as a structural organizing element of urban space. Law 388 established that municipios with a population of more than 100,000 must have a land-use management plan (POT); municipios with a population of 30,000-100,000, a basic land-use management plan (PBOT); and municipios with a population of fewer than 30,000, a land-use management framework (EOT) ([MINVIVIENDA](#)). It also required the 1,080 municipios to submit land-use management instruments within the next two years (June 1999) ([El Tiempo, 2000](#)). However, the majority of the POTs were approved between 2000 and 2003, with a term of up to 12 years. In 2016, 98% (1,101 municipios) of Colombia's 1,123 municipios had a POT, PBOT, or EOT ([DNP, 2016; Universidad Nacional de Colombia, 2016](#)).
- 1.48 Implementation of the POTs helped the major cities (Bogota, Medellin, Cartagena, Cali, and Bucaramanga) control urban sprawl, ensuring that the types of land use given priority are related to higher density models such as: consolidation, conservation, comprehensive improvement, or urban renewal. In Bogota, most land use is devoted to consolidation, with a 61.4% share, equivalent to 19,202.9 ha. Land for comprehensive improvement accounts for 17%, and for urban renewal, 5%, while the figure for development is 11% (DNP, 2013). Law 388 has had a major impact on the compact city model, thanks to the definition of land use in the POTs and the implementation of mechanisms for medium-term planning and associated management. Vertical building is a recurrent trend, and the number of construction

projects for tall structures (20-40 floors) is high in cities such as Barranquilla, Cartagena, Medellin, and more recently, Santa Marta.

- 1.49 The impact on housing has been significant. For example, Bogotá witnessed 45 million m<sup>2</sup> of construction between 2002 and 2011. More than 33 million m<sup>2</sup> of this construction was housing, 34% of which was low-income housing (SDP, 2014). This caused the housing shortage in Colombia to shrink by 46.3% in the period 2005-2012 (MINVIVIENDA, 2014) and the proportion of deficient housing units to fall to 9% in 2011, versus 11.8% in 2014.
- 1.50 With regard to disaster risk management, Law 388 is considered to have been key to institutionalizing the issue in land-use planning through the POTs. It established the authority of the State, the departments, metropolitan areas, and municipios in urban land-use planning through the preparation of plans and projects that include environmental protection and population safety, thus helping reduce the country's vulnerability due to exposure (Economic Commission for Latin America and the Caribbean, 2007). Colombia's Law 388 has facilitated progress toward models in which State participation in the creation of space and especially the housing supply has been more active, respecting municipal authority in regulating land use but promoting the adoption of private- or public-sector instruments at the national level.
- 1.51 Brazil, in turn, has promoted major urban reform since the late 1980s. The Federal Constitution of 1988 introduced legal and institutional changes that were consolidated with the enactment of the Cities Statute (*Estatuto da Cidade*) of 2001 and the creation of the Ministry of Cities and the National Council of Cities in 2003. Implementation of the Cities Statute can be divided into two periods: (i) from 2001 to 2007 (the understanding and adoption period); and (ii) from 2007 to the present (actual implementation period); due to its breadth and potential, this latter can still be considered a partial phase (D'Alotto and Bernardy, 2018). This statute bolstered areas such as: (i) urban development; (ii) municipal government autonomy; (iii) cadastral regularization; (iv) the social right to housing; and (v) participatory democratic management.
- 1.52 With regard to municipal government autonomy, the statute promoted the preparation of master plans for cities with a population of over 20,000, setting a five-year deadline for their approval (Rodríguez and Barbosa, 2010; Fernandes, 2010). As a result, 50% (2,786) of all municipios in Brazil had a master plan in 2015, versus 14.5% in 2005, and 89.2% of municipios with populations of more than 20,000 had a master plan in 2015, versus 33% in 2005 ([IBGE](#), 2015). The master plan enabled municípios to integrate urban planning, legislation, and management to democratize local decision-making, guaranteeing the effective participation of citizens and urban planning and management associations (Fernandes, 2010).
- 1.53 The statute was supplemented with new federal legislation, such as the Public-Private Partnership Law (2004), the Intermunicipal Consortia Law (2005), and regulations facilitating the regularization of land tenure. This enabled municípios to improve access to land and housing. (Fernandes, 2010). According to the *Lincoln Institute of Land Policy* (2008), between 2001 and 2010 the land use and building regulations adopted enabled nearly 20% of municípios to reduce poverty and 23% to reduce the number untitled dwellings. Furthermore, thanks to institutional changes associated with the Constitution of 1988 and the implementation of this statute, the time it took to legalize the right of possession to undisputed urban land was cut from

- 25 to 5 years. The statute also provides instruments for cadastral regularization and the definition of low-income housing areas, known as Special Areas of Social Interest (ZEIS). In the case of Diadema, 30 ZEIS were set aside to build public housing once the master plan was drafted. In 10 years, 40 public housing projects (EHIS) with 8,862 units were created in the city, covering an area of 1.02 km<sup>2</sup>. These EHIS provided housing for an estimated 35,448 residents (Reali and Alli, 2010).
- 1.54 More broadly, the State's capacity to implement effective land-use and urban planning frameworks has a very high impact on inclusion and the quality of life in population centers. Beltrao (2013) asserts that policies such as the Development-oriented Transportation Policy and the construction of comprehensive urban housing developments are essential to the creation of inclusive cities. Such policies can only be implemented in the presence of sound land-use management tools and institutions.
- 1.55 In this same vein, Kriken (2010) states that there are at least nine urban planning principles that can ensure the adequate integration of urban dimensions such as the economic, social, environmental, and physical dimensions. These principles include: sustainability and resilience, accessibility, diversity, open spaces, compatibility, and density. All of these principles are considered in the LGAHOTDU and can be effectively applied under the law.
- 1.56 In short, both the external evidence and the internal analysis of the LGAHOTDU's components lead to the conclusion that proper implementation of an instrument that lends strength and consistency to urban planning and land-use management is essential for optimally aligning skills in the territory with the needs of its inhabitants and, thus, significantly improving the living conditions of the population as a whole. International experience suggests that implementing this type of law can be an effective way to solve land-use problems in Mexico. For example, the regulatory process under Law 388 in Colombia and its outcomes indicate the potential for a substantial impact in middle-income countries with advanced urbanization processes. Likewise, the experience in Brazil indicates that land-use management laws can be successful even in a federated country.
- 1.57 **Challenges to implementing the LGAHOTDU.** While the LGAHOTDU establishes guidelines for the proper management of urban development and land use in the country, the main challenge currently facing the Government of Mexico is the law's implementation. To accomplish this, the different levels of government must coordinate with each other in the design and implementation of regulations and instruments that make it possible to comply with the law, guaranteeing, in turn, consistency across government levels and citizen participation. In order to mitigate these challenges, the LGAHOTDU includes the creation and launch of several agencies that will facilitate policy coordination among the local, metropolitan, state, and federal levels. These agencies include the National Land-use Management and Urban Development Board, state land-use management and urban development boards, and metropolitan and conurbation boards/commissions. In addition, the LGAHOTDU also anticipates the strengthening of technical capacities through a mechanism for certifying specialists in land-use management to further the proper application of the regulatory framework and its planning, statistics, and policy instruments. To this end, The Bank is currently supporting the government with technical cooperation funding to help develop these instruments.

- 1.58 **The Bank's experience in Mexico.** The IDB has been supporting Mexico's urban development policy in three main areas: (i) reducing gaps in access to infrastructure; (ii) improving planning efforts in medium-sized cities; and (iii) promoting resilient urban development. To address the deficit in access to infrastructure, four loans have worked on a universe of 705 municipios. This effort has involved a comprehensive strategy aimed at improving planning processes to prevent the dispersal of resources.<sup>25</sup> To support planning efforts, the Emerging and Sustainable Cities Initiative (ESCI) is being executed in 10 Mexican cities, providing each with a plan of action containing a menu of interventions for addressing the issue of sustainable urban growth. Lastly, to support resilient development, the loan based on results (LBR) 4447/OC-ME, Land Management to Achieve Results under the Climate Change Agenda, was approved in 2017, with the mission of creating incentives for the inclusion of location criteria in housing- and forestry-sector policies to align them with the climate change agenda.
- 1.59 **Lessons learned.** The program incorporates the lessons learned by the Bank in the design and implementation of programmatic operations to accompany policy reforms.<sup>26</sup> Some of these lessons learned are related to the importance of: (i) adequate sequencing of reforms and a gradual approach that combines regulatory progress with technical capacity building; (ii) definition of the conditions for effective policies that ensure the robustness of the reform program; (iii) a framework for the programmatic series designed to minimize the risk that the reform will be unsustainable; and (iv) very close support by the Bank of the government during the implementation of institutional changes and policy measures, through technical assistance. These lessons have been integrated into the program's design,<sup>27</sup> buttressing the reform through a series of technical cooperation activities aimed at strengthening planning tools and institutional capacity. The policy conditions established for each programmatic program are complementary, ensuring assistance throughout the reform process.
- 1.60 **Bank additionality.** The Bank has continually supported the implementation of the reform in the sector in Mexico, within the framework of the New Urban Agenda and the country commitments under Habitat III. In particular, the Bank has provided technical cooperation funding<sup>28</sup> to support the Regional Meeting leading up to Habitat III in Toluca; the drafting of recommendations for innovations in housing policy; proposals to improve land management mechanisms; and several technical dialogues and international exchanges on urban reform. In particular, since 2015, the Bank has continued to play an active role in consolidating the LGAHOTDU, strengthening in land-use management activities in the country through joint efforts

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<sup>25</sup> For a total of US\$980 million with 1583/OC-ME; 1928/OC-ME; 2569/OC-ME; and 3607/OC-ME.

<sup>26</sup> Technical Note – Design and Use of Policy-based Loans at the IDB, IDB OVE, 2015.

<sup>27</sup> *Good Practice Note for Development Policy Lending*, World Bank, 2011.

<sup>28</sup> In particular: ATN/KR-15068-RG; ATN/CF-14388-RG; ATN/FI-15517-RG; ATN/OC-15983-RG; ATN/SS-14646-RG; ATN/OC-13915-ME; ATN/SS-13916-ME; ATN/FG-15392-ME; ATN/OC-15290-ME, and ESW RG-K1389.

to include location parameters in housing policy through the PBR, studies on the urban footprint in ESCI cities, and proposals for geospatial tools.<sup>29</sup>

- 1.61 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is aligned with the challenges of: (i) social inclusion and equality, since better city planning will give citizens more equitable access to public services; and (ii) productivity and innovation, since the LGAHOTDU has the potential to boost urban productivity to the extent that better land-use patterns are achieved. It is also aligned with the crosscutting themes of: (i) climate change and environmental sustainability, since it contains a series of measures to increase urban resilience and other factors that impact adaptation and mitigation, such as land use and mobility. According to the [joint methodology of Multilateral Development Banks for estimating climate finance](#), roughly 61.54% of the resources from this operation are associated with policies that will promote climate change mitigation and adaptation activities. These resources help meet the IDB Group's target of increasing the financing for projects related to climate change to 30% of all approved operations by the end of 2020; (ii) gender equality and diversity, since Articles 4, 15, 20, 70, and 96 of the LGAHOTDU require that the gender perspective be considered in all planning exercises and coordination entities at the different levels of government. The program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6), through the indicator for government agencies benefitted by projects that strengthen technological and managerial tools to improve public service delivery. This program will also contribute to the Sector Strategy: Institutions for Growth and Social Welfare (document GN-2587-2), by strengthening public management and building institutional capacity, the IDB Infrastructure Strategy: Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5), and the promotion of participatory planned investments. The program is also aligned with the following sector framework documents: Urban Development and Housing (document GN-2732-6), to address the links between uncontrolled urban growth and territorial management problems; Decentralization and Subnational Governments (document GN-2813-3), by supporting greater coordination of intergovernmental arrangements; Transportation (document GN-2740-7), by including the issue of urban transportation as part of sustainable territorial management; and Climate Change (document GN-2835-3), by promoting a multisector territorial vision of the issues of vulnerability and disaster preparedness and response. Lastly, the program's activities are aligned with the IDB Country Strategy with Mexico 2013-2018 (document GN-2749) in its territorial development pillar, through the urban development and climate change mitigation.

## **B. Objectives, components, and cost**

- 1.62 The objective of this programmatic series is to lay the foundations for the strengthening of a new territorial and urban development model that is comprehensive, inclusive, resilient, and sustainable. The first operation will support development of the framework for implementing the LGAHOTDU and the drafting of its regulations, including: (i) regulatory development; (ii) the strengthening of

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<sup>29</sup> To this end, it has coordinated with other institutions such as the OECD, co-organizing a mayors' roundtable in 2015; with AFD and UN Habitat, holding technical meetings to support the reform; and with GIZ, working on joint technical cooperation activities to support the sector.

- intergovernmental and interagency coordination; (iii) the creation of legal instruments for urban development and land-use management; and (iv) the development of information systems for territorial planning. For the second operation, SEDATU will continue the regulation process that will ensure application of the LGAHOTDU instruments, consolidating its position as the agency responsible for land-use management in the country.
- 1.63 Annex II – Policy Matrix shows the specific conditions to be met prior to the disbursement for the first operation, and the mechanisms for triggering the second operation. These conditions are detailed in [required electronic link 2, Means of Verification Matrix](#).
- 1.64 **Component I. Macroeconomic stability.** The objective of this component is to ensure that the macroeconomic framework is consistent with program objectives and the sector policy letter.
- 1.65 **Component II. Regulatory development.** The objective of this component is to provide SEDATU with the regulatory framework necessary for commencing implementation of a new land-use management policy in coordination with ecological management.<sup>30</sup> The first operation includes: (i) passage of the law and its publication in the Diario Oficial de la Federación [Official Gazette of the Federation] (DOF) by the Federal Executive Branch; (ii) publication on the Government of Mexico portal of the guide for the adaptation and reform of state legislation approved by SEDATU; (iii) publication in the official state gazettes of six state laws on land-use management and urban development enacted by the state governments; (iv) establishment approved by the National Standardization Commission of the National Consultative Committee for the Standardization of Land-use Management and Urban Development; (v) registration by SEDATU of the titles of four NOMs in the National Standardization Program published in the DOF; and (vi) publication on the Government of Mexico portal of the 2015 guidelines and boundaries for metropolitan areas.
- 1.66 The second operation will intensify the exercise to align the legal framework through passage of the General Law for Harmonizing and Standardizing Public Real Estate and Legal Entity Registers and Cadasters, the publication of 12 additional state laws, approval of the four NOMs registered in the first operation, publication of the characterization and hierarchy of metropolitan areas and projects of metropolitan interest, and submission of the guidelines for equipment, infrastructure, environment, and linkage with the location to COFEMER.
- 1.67 **Component III. Strengthening of intergovernmental and interagency coordination.** The objective of this component is to create the deliberative and auxiliary bodies outlined in the LGAHOTDU to ensure the necessary entities for consultation, advisory support, monitoring, and evaluation of land-use management, urban and metropolitan development policies at the different levels of government, with a focus on consensus building and citizen participation. This first operation includes: (i) approval of the guidelines for the formation and operation of the

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<sup>30</sup> The LGAHOTDU (Article 29) and the General Law on Climate Change (Articles 8 and 30), published in the Official Gazette of the Federation of 6 June 2012, link ecological and land-use management, requiring federative entities to design, regulate, direct, and implement climate change mitigation and adaptation activities in land-use management.

- CNOTDU by this same board and its publication in the DOF; (ii) installation of the CNOTDU by act of the board; (iii) installation of 20 state land-use management and urban development boards through charters issued by each respective board; (iv) installation of three metropolitan and/or conurbation boards and/or commissions through agreements and/or instruments issued by the respective boards and/or commissions; and (v) publication of the guidelines established for the certification of specialists in territorial management.
- 1.68 The second operation will involve the monitoring of CNOTDU meetings, which will discuss ENOT, and 12 state boards and metropolitan commissions in addition to those of the first operation will commence operations. Lastly, the first specialists in three pilot states will be certified.
- 1.69 **Component IV. Creation of legal instruments for urban development and land-use management.** The objective of this component is to develop, negotiate, and consolidate national, state, metropolitan, and municipal plans, programs, and instruments for land-use management and urban development in Mexico. This first operation includes: (i) submission of the content of ENOT to the CNOTDU by board resolution; (ii) publication of the guidelines on the new methodology for the preparation and updating of municipal urban development programs (for population centers with more than 100,000 residents), approved by SEDATU, on the Government of Mexico portal; (iii) publication of the guidelines for urban road design (street manual), approved by SEDATU, on the Government of Mexico portal; (iv) publication of the 2018 operating rules, issued by SEDATU for the risk prevention program, in the DOF, updated according to the LGAHOTDU chapter on resilience; (v) publication of the 2018 operating rules, issued by SEDATU for the infrastructure program, in the DOF, updated with the inclusion of LGAHOTDU components; (vi) publication of the guidelines for the urban resilience profile, with the comprehensive model for the calculation and analysis of the profile, approved by SEDATU, on the Government of Mexico portal; and (vii) preparation and approval of 14 urban resilience profiles by SEDATU. This vision will consider gender and climate change, pursuant to the lines of action indicated by the LGAHOTDU.<sup>31</sup>
- 1.70 The second operation will support the drafting of LGAHOTDU regulations, with the publication of ENOT, guidelines for the development of state and metropolitan programs, guidelines for the development of comprehensive risk management strategies, and operating rules for risk prevention and infrastructure programs. Training will be also provided to local governments in the implementation of the guidelines for urban road design, together with advisory support for urban road infrastructure projects in the implementation phase.
- 1.71 **Component V. Information systems for territorial planning.** The objective of this component is to provide relevant up-to-date information on territorial planning. The first operation includes: (i) publication of the Agreement Creating the National Registration and Cadastral Information Platform in the DOF; and (ii) the operation of three state cadastral management systems, pursuant to the project completion document signed by SEDATU.

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<sup>31</sup> Articles 4, 15, 20, 70, and 96 of the law call for gender to be considered in planning exercises and coordination entities at the different levels of government.



- 1.72 As part of the second operation, SITU is expected to be up and running, and the number of operational state cadastral management systems will be increased to six. As information is consolidated, it will serve as input for the preparation of the first federal and local planning exercises.

**C. Key results indicators**

- 1.73 The expected outcomes of the programmatic operations are conceived as short-, medium-, and long-term changes stemming from the implementation of reform measures designed to create a compact, comprehensive, inclusive, resilient, and sustainable territorial and urban development model, as indicated in the Results Matrix ([required electronic link 3](#)). Upon completion of this first operation, 50% of municipios with populations of more than 100,000 are expected to have an up-to-date urban development program. This information will confirm that: (i) progress has been made in updating the subnational regulatory framework; (ii) land-use management instruments at the different levels of government are being coordinated; (iii) there is intergovernmental coordination; and (iv) the National Registration and Cadastral Information Platform is being used in planning efforts. To achieve this, technical cooperation activities (ATN/OC-16447-ME and ATN/JF-16577-ME) will support the preparation of some of the technical outputs associated with this operation that will contribute to the changes indicated in Annex II – Policy Matrix.
- 1.74 Furthermore, in the long term, the planning measures adopted with the implementation of the LGAHOTDU are expected to result in a 50% reduction in the population that took one to two hours to get to work in 2015. Likewise, use of the planning instruments outlined in the LGAHOTDU is expected to increase the proportion of dwellings located in city centers, shortening the distance between home and work.
- 1.75 The program's expected beneficiary population is the country's total population to the extent that proper implementation of the LGAHOTDU includes the preparation or upgrading of various tools to improve the planning of the federal territory and all its population centers.

**D. Economic analysis**

- 1.76 Based on OVE's recommendations in its 2011 Evaluability Review of Bank Projects,<sup>32</sup> and on the findings of the review of evaluation practices and standards for policy-based loans by the Evaluation Cooperation Group (comprising the independent evaluation offices of the multilateral development banks)<sup>33</sup> anticipated in paragraph 1.3 of document GN-2489-5 (Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-sovereign Guaranteed Operations), indicating that it would not be necessary to include an analysis of efficiency in the

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<sup>32</sup> Document RE-397-1: "Currently, Economic Analysis section is computed as the maximum between the CBA and the CEA. Yet neither a CBA nor a CEA is applicable to PBLs and PBPs."

<sup>33</sup> "Good Practice Standards for the Evaluation of Public Sector Operations." Evaluation Cooperation Group. Working Group on Public Sector Evaluation. 2012 Revised Edition. February 2012.



use of financial resources,<sup>34</sup> it was decided that economic analyses would not be conducted for these types of loans as reported to the Bank's Board of Executive Directors. Therefore, this loan operation does not include an economic analysis, and accordingly, the economic analysis will not be considered for purposes of this program's DEM evaluability score.

## **II. FINANCING STRUCTURE AND MAIN RISKS**

### **A. Financing instruments**

- 2.1 This operation has been structured under the programmatic policy-based loan modality (PBP) and represents the first operation in a programmatic series consisting of two contractually independent and technically linked loans, pursuant to the stipulations in Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-1). According to paragraph 3.27 (b) of the aforementioned guidelines, the amount of the financing for this first operation in a series of two is US\$600 million from the Ordinary Capital. The amount is justified by the fiscal resource needs that Mexico is experiencing. Public Sector Financing Requirements for 2018 are estimated at US\$31.08 billion, and external financing at US\$5.5 billion. This operation represents 1.9% and 10.9% of these requirements, respectively. Disbursement of the resources is subject to compliance with the policy reform measures agreed upon with the government, which are described in the program components. This financing instrument with a programmatic option was chosen, since it provides continuity for technical and policy dialogue. Therefore, as indicated in document CS-3633-1, this may be the ideal modality for the operation to respond to any events that occur or to new knowledge acquired during execution. An additional advantage of the instrument is that it allows very close work with SEDATU, permitting a policy adjustment if necessary.

### **B. Environmental and social risks**

- 2.2 According to Directive B.13 of the Environment and Safeguards Compliance Policy (Sector Policy OP-703), this program requires no [classification](#). The operation supports the definition of policies, standards, management instruments, and other institutional strengthening activities that do not entail any social or environmental risks.

### **C. Other project risks**

- 2.3 This programmatic series is being prepared in the context of a change in administration scheduled to take place in December 2018. This entails the potential for changes in the policy agenda. It should be noted, however, that: (i) the LGAHOTDU was approved virtually unanimously; and (ii) the majority of the elements supported in the two operations of this PBP correspond to compulsory transition provisions. Furthermore, this risk is also mitigated by the technical assistance contemplated under the program to provide continuity for implementation of the LGAHOTDU. Lastly, to guarantee the success of the policy measures under the first operation, the Bank has been providing technical support and monitoring

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<sup>34</sup> According to the Evaluation Cooperation Group, PBLs should be evaluated based on relevance, effectiveness, and sustainability. Efficiency is not included as a criterion, since the scope of the PBLs is linked to a country's financing gap, regardless of the benefits of the project.

the process, the additionality of which is described in paragraph 1.60; thus, these measures are now fully implemented.

- 2.4 Other public management and governance risks are related to: (i) the potentially inadequate interagency coordination among the different levels of government and entities involved, resulting in delays in laying the foundations for a new urban development model; (ii) coordination constraints among the different levels of government that could affect the development of a new type of urban governance; and (iii) the lack of institutional capacity at different levels, making it hard to design, negotiate, and consolidate plans, programs, and instruments for land-use management and urban development. The main mitigation activities for these risks are related to the technical assistance planned under the program, which will support: (i) the formalization of regulations and interagency agreements; (ii) the development of a new type of urban governance; (iii) the design and implementation of land-use management strategies; and (iv) implementation of the National Registration and Cadastral Information Platform.

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

#### **A. Summary of implementation arrangements**

- 3.1 The borrower is the United Mexican States, through the Department of Finance (SHCP). Nacional Financiera S.N.C., I.B.D. (NAFIN) will act as the borrower's financial agent for administration of the loan proceeds. Program execution will be the responsibility of the borrower through SEDATU, which will act as executing agency and have the following responsibilities: (i) provide evidence that policy commitments have been fulfilled, along with any other program-related evidence that the IDB needs to approve the respective disbursements; (ii) support the actions required for continuity in program implementation; and (iii) once the program resources have been disbursed, gather the information on performance indicators needed to evaluate program outcomes. As an integral part of the activities included in this program, SEDATU will be responsible for demonstrating that the various consultative and coordination bodies—from the local level up to the metropolitan, state, and federal level—have been created. This responsibility is illustrated in Component IV.
- 3.2 **A special contractual condition precedent to the single disbursement of the financing for the first operation in the series will be compliance with the policy reform conditions, as established in the Policy Matrix (Annex II), and the other conditions established in the respective loan contract.**

#### **B. Summary of arrangements for monitoring results**

- 3.3 Program monitoring is defined as verification of the policy measures agreed to as conditions ([optional electronic link 1](#)). In addition, monitoring is provided for the outcomes of these reforms and policies at the program level through the indicators of the results matrix. SEDATU plans to hold monitoring and coordination meetings with the new bodies created and the federative entities for monitoring and evaluating the results matrix. Before processing the second operation, the Bank will issue a progress report reviewing the program's development, the progress made in the reforms, and the triggers, and will identify any changes and adjustments that may be required to meet program targets.

- 3.4 The project team will prepare a Project Completion Report (PCR) at the end of the second loan operation, following Bank guidelines in document OP-1242-5. The PCR will evaluate the outcomes obtained.

#### **IV. POLICY LETTER**

- 4.1 The Policy Letter ([required electronic link 1](#)) reiterates the Government of Mexico's commitment to the policy reform measures that Mexico has proposed to implement to meet the program objectives.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change and Environmental Sustainability	
Country Development Results Indicators		
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2749	Apoyar la implementación de la política nacional de cambio climático.
Country Program Results Matrix	GN-2915	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	10.0	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	N/A	
5. Monitoring and Evaluation	8.6	
5.1 Monitoring Mechanisms	1.1	
5.2 Evaluation Plan	7.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B.13	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.  Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Strategic Planning National System, Statistics National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The objective of the Program for Strengthening of the Reform for Urban Development and Territorial Planning aims to establish the bases for a new model of territorial and urban development that is comprehensive, inclusive, resilient, and sustainable. To achieve these objectives, the PBL supports the elaboration and regulation of the framework for the implementation of the General Law of Human Settlements, Territorial Planning and Urban Development. The vertical logic presented in the POD is consistent with the indicators presented in the results matrix, and includes indicators for products and outcomes. In accordance with the changes to the DEM approved on January 30, 2018, the PBL does not present an economic analysis and includes the corresponding justification. The indicators meet SMART criteria and include baseline values and targets, as well as the sources and means of verification that will be used to measure them. The program will measure outcome indicators related to the updating of urban development programs at the municipal level, the concentration of urban housing in central areas and the transit time of the population to their place of work. The monitoring of the program will be done by the project team in coordination with SEDATU. A specialized and independent consultancy supervised by the Bank team will be hired to verify compliance with the agreements of the Policy Matrix. This consultancy will also verify the results expected in the Results Matrix with its corresponding products. The program proposes an evaluation with attribution using the methodology of instrumental variables (randomized promotion) to measure the impact of updating the urban development program at the municipal level on the concentration of urban housing in central areas in municipalities with more than 50,000 inhabitants. The overall risk rate is "medium," and major risks have identified mitigation measures and indicators for tracking their implementation.

## POLICY MATRIX

OBJECTIVES	PROGRAMMATIC LOAN I	PROGRAMMATIC LOAN II
	POLICY CONDITIONS	TRIGGERS
<b>Component I. Macroeconomic stability</b>		
Maintain an economic framework consistent with program objectives and the sector policy letter.	Consistent macroeconomic framework maintained.	Consistent macroeconomic framework maintained.
<b>Component II. Regulatory development</b>		
Provide SEDATU with the regulatory framework necessary for commencing implementation of the Land-use Management Policy in coordination with ecological management.	Approval of the new national and subnational regulatory framework for land-use management and urban development: <ul style="list-style-type: none"> <li>General Law on Human Settlements, Land-use Management, and Urban Development (LGAHOTDU) enacted and published.</li> <li>Guide for the adaptation and reform of state legislation published pursuant to Article 8 of the LGAHOTDU,</li> <li>Six state laws on land-use management and urban development published, based on Article 10 of the LGAHOTDU.</li> </ul>	Approval of the new national and subnational regulatory framework for land-use management and urban development: <ul style="list-style-type: none"> <li>General Law for Harmonizing and Standardizing Public Real Estate and Legal Entity Registers and Cadasters enacted.</li> <li>12 additional state laws on land-use management and urban development published.</li> </ul>
	Registration of Official Mexican Standards (NOMs) on urban development and land-use management: <ul style="list-style-type: none"> <li>National Consultative Committee for Standardization of Land-use Management and Urban Development installed, pursuant to Article 9 of the LGAHOTDU and Article 62 of the Federal Law on Metrology and Standardization.</li> <li>Four NOMs registered under the National Standardization Program based on Article 9 of the LGAHOTDU: <ul style="list-style-type: none"> <li>'structure of the primary road network in human settlements, population centers and their growth areas, and for urban public works and mobility'</li> </ul> </li> </ul>	Issuance of NOMs on urban development and land-use management: <ul style="list-style-type: none"> <li>NOM on 'structure of the primary road network in human settlements, population centers, and their growth areas, and on urban public works and urban mobility' approved.</li> <li>NOM on 'custody and use of environmentally valuable areas unsuitable for development, including the first dunes of beaches, river fords, lakes and reservoirs for urban resilience' approved.</li> </ul>

OBJECTIVES	PROGRAMMATIC LOAN I	PROGRAMMATIC LOAN II
	POLICY CONDITIONS	TRIGGERS
	<ul style="list-style-type: none"> <li>• 'custody and use of environmentally valuable areas unsuitable for development, including the first dunes of beaches, river fords, lakes and reservoirs for urban resilience'</li> <li>• 'standardization of terminology for the prioritization of public spaces and facilities in urban development plans or programs'</li> <li>• 'prevention and response to contingencies in population centers for heightening resilience.'</li> </ul>	<ul style="list-style-type: none"> <li>• NOM on 'standardization of terminology for the prioritization of public spaces and facilities in urban development plans or programs' approved.</li> <li>• NOM on 'prevention and response to contingencies in population centers for heightening resilience' approved.</li> </ul>
	<p>Pursuant to Article 8 of the LGAHOTDU, preparation of guidelines for urban development and land-use management:</p> <ul style="list-style-type: none"> <li>• Guidelines and boundaries for metropolitan areas published.</li> </ul>	<p>Publication of guidelines for urban development and land-use management:</p> <ul style="list-style-type: none"> <li>• Characterization and hierarchy of metropolitan areas published.</li> <li>• Guidelines for measuring and ensuring compliance with project objectives and actions of metropolitan interest published.</li> <li>• Guidelines for equipment, infrastructure, the environment, and linkage with the location in which the actions in land use or exploitation, as well as housing, will be taken, financed with federal resources, submitted for the consideration of the Federal Commission on Regulatory Improvement (COFEMER).</li> </ul>

OBJECTIVES	PROGRAMMATIC LOAN I	PROGRAMMATIC LOAN II
	POLICY CONDITIONS	TRIGGERS
<b>Component III. Strengthening of intergovernmental and interagency coordination</b>		
Create the deliberative and auxiliary bodies stipulated in the law to ensure the necessary entities for consultation, advisory support, monitoring, and evaluation of land-use management and urban and metropolitan development policies at the different levels of government, with a focus on consensus building and citizen participation.	<p>Pursuant to Articles 14 and 16 of the LGAHOTDU, implemented by the National Land-use Management and Urban Development Board (CNOTDU):</p> <ul style="list-style-type: none"> <li>Guidelines for the creation and operation of the CNOTDU approved.</li> <li>CNOTDU installed.</li> </ul>	<p>CNOTDU exercise:</p> <ul style="list-style-type: none"> <li>CNOTDU meetings held for discussion of the National Land-use Management Strategy.</li> </ul>
	<p>Based on Article 19 of the LGAHOTDU, creation of the state land-use management and urban development boards:</p> <ul style="list-style-type: none"> <li>20 state land-use management and urban development boards installed.</li> </ul>	<p>Installation of state land-use management and urban development boards:</p> <ul style="list-style-type: none"> <li>The remaining 12 state land-use management and urban development boards installed.</li> </ul>
	<p>Based on Article 19 of the LGAHOTDU, installation of metropolitan and conurbation boards and/or commissions:</p> <ul style="list-style-type: none"> <li>Three metropolitan and conurbation boards and/or commissions installed.</li> </ul>	<p>Creation of metropolitan and conurbation commissions:</p> <ul style="list-style-type: none"> <li>12 additional metropolitan and conurbation boards and/or commissions installed.</li> </ul>
	<p>Pursuant to Article 96 of the LGAHOTDU, implementation of the system for the certification of land-use management specialists:</p> <ul style="list-style-type: none"> <li>Guidelines for the certification of land-use management specialists established.</li> </ul>	<p>Operation of the system for the certification of land-use management specialists:</p> <ul style="list-style-type: none"> <li>Specialists in three pilot states certified.</li> </ul>

OBJECTIVES	PROGRAMMATIC LOAN I	PROGRAMMATIC LOAN II
	POLICY CONDITIONS	TRIGGERS
<b>Component IV. Creation of legal instruments for urban-development and land-use management</b>		
Develop, negotiate, and consolidate national, state, metropolitan, and municipal plans, programs, and instruments for land-use management and urban development in Mexico.	Pursuant to Article 24 of the LGAHOTDU, preparation of the National Land-use Management Strategy (ENOT): <ul style="list-style-type: none"> <li>Content of the National Land-use Management Strategy submitted to the CNOTDU.</li> </ul>	Approval of the ENOT: <ul style="list-style-type: none"> <li>ENOT published.</li> </ul>
	Issuance of guidelines for subnational land-use management: <ul style="list-style-type: none"> <li>Guidelines on new methodology for the preparation and updating of municipal urban development programs (population centers with more than 100,000 inhabitants) published pursuant to transition Article 5 of the LGAHOTDU, published by SEDATU to support the states and municipios in updating their programs.</li> <li>Guidelines for Urban Road Design (street manual) published, based on Article 8 of the LGAHOTDU.</li> </ul>	Publication of guidelines on subnational land-use management: <ul style="list-style-type: none"> <li>Guidelines for the design and adaptation of state land-use management and urban development programs published.</li> <li>Guidelines for the design and adaptation of metropolitan area and conurbation programs published.</li> <li>Local governments trained in the implementation of the guidelines for urban road design.</li> <li>Advisory support provided for urban road infrastructure projects in the implementation phase.</li> </ul>
	Updating of operating rules for federal investment programs in order to align the national planning instruments, in accordance with the LGAHOTDU: <ul style="list-style-type: none"> <li>2018 operating rules of the program for risk prevention updated pursuant to the LGAHOTDU chapter on resilience.</li> <li>2018 operating rules of the infrastructure program updated, incorporating components of the LGAHOTDU.</li> </ul>	Updating of guidelines for the design and adaptation of federal investment programs and operating rules: <ul style="list-style-type: none"> <li>2019 operating rules of the risk prevention program published.</li> <li>2019 operating rules of the infrastructure program published.</li> </ul>
	Based on Chapter Six on Urban Resilience of the LGAHOTDU, preparation and approval of urban resilience profiles:	Publication of guidelines on urban resilience: <ul style="list-style-type: none"> <li>Guidelines for the design of comprehensive risk management strategies published.</li> </ul>



OBJECTIVES	PROGRAMMATIC LOAN I	PROGRAMMATIC LOAN II
	POLICY CONDITIONS	TRIGGERS
	<ul style="list-style-type: none"> <li>Guidelines for the urban resilience profile, with the comprehensive model for the calculation and analysis of this profile published.</li> <li>14 urban resilience profiles prepared and approved.</li> </ul>	
<b>Component V. Information systems for territorial planning</b>		
Provide relevant, up-to-date information on territorial planning	<p>Pursuant to Article 97 of the LGAHOTDU, preparation and initial implementation of the Territorial and Urban Information System (SITU):</p> <ul style="list-style-type: none"> <li>Agreement creating the National Registration and Cadastral Information Platform published.</li> <li>Three state cadastral management systems up and running.</li> </ul>	<p>Implementation of SITU:</p> <ul style="list-style-type: none"> <li>SITU up and running.</li> <li>Three additional state cadastral management systems up and running.</li> </ul>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Mexico. Loan \_\_\_\_/OC-ME to the United Mexican States  
Program to Strengthen Urban Development  
and Land-use Management Reform

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the United Mexican States, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Program to Strengthen Urban Development and Land-use Management Reform. Such financing will be for the amount of up to US\$600,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_ \_\_\_\_\_ 2018)