

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MEXICO

**CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) TO
NARROW URBAN AND SOCIAL GAPS**

(ME-O0010)

FIRST OPERATION. URBAN IMPROVEMENT PROGRAM

(ME-L1312)

LOAN PROPOSAL

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ABBREVIATIONS

BANOBRAS	Banco Nacional de Obras y Servicios Públicos [National Bank of Public Works and Services]
CCLIP	Conditional credit line for investment projects
CENAPRED	Centro Nacional de Prevención de Desastres [National Center for Disaster Prevention]
CONAPO	Consejo Nacional de Población [National Population Council]
CONAVI	Comisión Nacional de Vivienda [National Housing Commission]
CONEVAL	Consejo Nacional de Evaluación de la Política de Desarrollo Social [National Council for the Evaluation of Social Development Policy]
ICAP	Institutional Capacity Assessment Platform
INEGI	Instituto Nacional de Estadística y Geografía [National Institute of Statistics and Geography]
INFONAVIT	Instituto del Fondo Nacional de la Vivienda para los Trabajadores [Institute of the National Housing Fund for Workers]
INSUS	Instituto Nacional de Suelo Sustentable [National Institute for Sustainable Land]
LGAHOTDU	Ley General de Asentamientos Humanos, Ordenamiento Territorial, y Desarrollo Urbano [General Law on Human Settlements, Land Use Management, and Urban Development]
<i>Manzana</i>	Unit equivalent to one city block
NAFIN	Nacional Financiera S.N.C.
PECC	Programa Especial de Cambio Climático [Special Program for Climate Change]
PMU	Programa de Mejoramiento Urbano [Urban Improvement Program]
PND	Plan Nacional de Desarrollo 2019-2024 [National Development Plan 2019-2024]
PRU	Program responsible unit
SEDATU	Department of Agricultural, Territorial, and Urban Development
SEDESOL	Department of Social Development
SESA	Strategic environmental and social assessment
SESMP	Strategic environmental and social management plan
SFP	Civil Service Department

PROJECT SUMMARY

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FIRST OPERATION. URBAN IMPROVEMENT PROGRAM (ME-L1312)

Financial Terms and Conditions					
Borrower:			Flexible Financing Facility ^(a)		
United Mexican States			Amortization period:	14.5 years	
Executing agency:			Disbursement period:	4 years	
Department of Agricultural, Territorial, and Urban Development (SEDATU). For Component 2, acting through the National Institute for Sustainable Land (INSUS) as subexecuting agency			Grace period:	5.5 years ^(b)	
			Interest rate:	LIBOR-based ^(c)	
Source	CCLIP amount	First operation	%	Credit fee:	(d)
IDB (Ordinary Capital):	US\$1 billion	US\$300 million	100%	Inspection and supervision fee:	(d)
Total:	US\$1 billion	US\$300 million	100%	Weighted average life:	10 years
				Currency of approval:	U.S. dollars
Project at a Glance					
General objective of the CCLIP: Contribute to narrowing urban and social gaps by improving access to goods and services for people living in areas with medium, high, and very high urban and social gaps in eligible municipios.					
Objective of the first individual operation under the CCLIP: The specific objectives of the first program under the CCLIP are: (i) to improve access to public spaces and urban facilities; (ii) to contribute to legal certainty as to land tenure; and (iii) to improve planning tools at the municipal, metropolitan, and state levels.					
Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) an agency agreement has been entered into by the borrower, SEDATU, and Nacional Financiera S.N.C. as the borrower's financial agent; and (ii) the program Operations Manual have been approved on the terms previously agreed upon with the Bank (see paragraph 3.11). Special contractual execution conditions: See Annex B of the environmental and social management report (see paragraph 3.11).					
Exceptions to Bank policies: None.					
Strategic Alignment					
Challenges: ^(e)	SI <input checked="" type="checkbox"/>		PI <input checked="" type="checkbox"/>		EI <input type="checkbox"/>
Crosscutting themes: ^(f)	GE <input checked="" type="checkbox"/> and DI <input checked="" type="checkbox"/>		CC <input type="checkbox"/> and ES <input checked="" type="checkbox"/>		IC <input checked="" type="checkbox"/>

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

^(b) 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.

^(c) In keeping with document FN-729 (Strategy and Operational Readiness for the Execution of the LIBOR Transition for the IDB Balance Sheet) and document CF-257-1 (Base Rate Replacement for Sovereign Guaranteed LIBOR-based Loans), this loan will be subject to the SOFR-based interest rate, upon notification to the borrower by the Bank or at the borrower's request, pursuant to the provisions of the loan contract.

^(d) 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.

^(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(f) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 **Macroeconomic context.** On the heels of a -8.3% contraction of the economy in 2020 due to the COVID-19 pandemic, Mexico has shown signs of recovery in 2021 that have led to an increase in the growth forecast to 6.2%. Fiscal policy fought the crisis by seeking to contain the fiscal deficit. Even so, the public deficit closed out 2020 at 4% but is expected to rise to 4.2% for 2021. The pandemic produced a significant increase in net debt from 44.5% of GDP in 2019 to 52.4% in 2020. The economic recovery seen in 2021 has been accompanied by high levels of inflation and has put pressure on monetary policy. Inflation was 6% in September, making seven consecutive months outside the Bank of Mexico target band ($3\% \pm 1$ percentage point). The Bank of Mexico changed its tune and raised the benchmark rate to 4.75% at the most recent monetary policy meeting. Subsequent monetary policy meetings are expected to continue the rate hikes, given the global inflation prospects. The impacts of the pandemic will give the government less room to maneuver in the future, to redirect spending and make use of emergency funds amid new crisis conditions [1].¹
- 1.2 **Background.** Mexico's urbanization has been rapid. Between 1900 and 2010, the country's population grew by a factor of 7.3, the number of cities increased by a factor of 11, and the urban population rose by a factor of 55 [2]. Currently, more than 92 million people live in the 401 cities that make up the National Urban System.² By 2030, this number is expected to reach 114 million [3].
- 1.3 Mexico's urbanization has not occurred in an orderly or compact manner. The land occupation pattern has been characterized by the disproportionate, fragmented, and unplanned expansion of the urban footprint. As a consequence, urban growth has consisted of settlements in the outskirts of established cities, the majority informal and usually distant and disconnected from social and economic activities within the urban areas. Between 1980 and 2010, city centers saw an average decline of 7.5% in population density, while density increased in areas more than 10 kilometers away from the city center by an average of 6.8% [4].
- 1.4 Rapid urbanization resulted in an insufficient and unaffordable supply of residential land inside cities for the low-income population, so millions of Mexicans have ended up in unregulated settlements on the outskirts. Recent estimates indicate that more than 70% of the land on which cities have grown is informal [5]. This situation was accentuated by a housing policy that favored financing for new dwellings without complementary mechanisms to access suitable, well-located land, creating incentives for informal division into plots inside and outside the established urban grid, as well as the emergence of private developments and low-income housing with little connectivity to cities and without urban and social facilities [6].
- 1.5 This growth pattern transformed space dynamics, contributing to marginalization and disadvantaging outlying settlements. Currently, there are noticeable differences between intraurban areas and the peripheries with respect to: the physical

¹ [Optional link 7](#) includes the bibliographic references identified with the numbers in brackets [#].

² A system comprised of 401 cities, classified as metropolitan areas (74), conurbations (132), and urban centers (195), identified using official geostatistical sources of information.

conditions of dwellings and their immediate surroundings; security of land tenure; availability of public spaces and urban facilities; and connectivity with job creation centers. Less than 5% of the population in established cities experiences urban and social gaps.³ In the outskirts and areas being established—where 60% of Mexico’s urban population lives—74% of the people face urban and social gaps [7].⁴

- 1.6 **Problem to be addressed.** This urbanization model reflects many different social and economic factors, as well as institutional and regulatory gaps that prevented effective planning coordination between the state and federal levels. The Department of Agricultural, Territorial, and Urban Development (SEDATU) and its predecessors operated within an institutional framework under which they were unable to issue urban land regulations and guidelines. In 2016, some of these gaps were closed with passage of the General Law on Human Settlements, Land Use Management, and Urban Development (LGAHOTDU). It established a comprehensive framework of legal bodies and public policies to govern land-use management and development; granted SEDATU the authority to issue guidelines on land use and the founding, preservation, improvement, and growth of settlements; and created a land-use management system that unifies all plans and programs for the three levels of government.⁵
- 1.7 Despite the great progress represented by passage of the LGAHOTDU and its subsequent implementation at the federal level, land development plans and programs at the subnational level have yet to materialize. Only 25% of the country’s 2,465 municipios have municipal planning instruments that are officially valid⁶ and in effect. In addition, only 45% of the 74 metropolitan areas have planning instruments.⁷ Although 53% of the 32 federative entities have planning instruments, only two have instruments aligned with the LGAHOTDU (Official Gazette of Mexico, 2020).⁸ Under this law, SEDATU published the National Land Use Management Strategy 2020-2040 and the National Land Use Management and Urban Development Program 2021-2024, which make up the general framework for new planning instruments and public policies for the three levels of government. A national strategy, together with a legal framework and sound instruments, will help subnational governments coordinate the various mechanisms contributing to land management with the objective of preventing and reversing unsustainable urban growth dynamics.

³ The Urban and Social Gap Index is an indicator produced by SEDATU. It consists of the spatial juxtaposition of other indexes of marginalization, social gaps, and urban containment prepared by the National Population Council (CONAPO), the National Council for the Evaluation of Social Development Policy (CONEVAL), and the National Housing Commission (CONAVI). In this analysis, the term has been applied to the levels of urban and social gaps equal to or above the national average (medium, high, and very high).

⁴ SEDATU, based on CONAVI’s urban containment perimeters and population statistics from the 2010 Census, for municipios eligible for the Urban Improvement Program (PMU).

⁵ This combined several instruments, including state land use management and urban development programs; programs for metropolitan areas and conurbations; and municipal urban development plans and programs.

⁶ “Officially valid” means municipal urban development plans and programs published in the Official Gazette of Mexico or recorded in the Public Registry of Property and Commerce (or equivalent entity).

⁷ By early 2020, none of the metropolitan planning instruments had been updated pursuant to the guidelines of the LGAHOTDU.

⁸ This figure refers to specific instruments such as state land use management programs. However, federative entities have made significant progress in the reform of state legal frameworks. By year-end 2019, 29 states had amended their land use management and urban development laws to harmonize them with the LGAHOTDU.

- 1.8 Putting laws, plans, and programs in place is a necessary but insufficient condition for closing these gaps. In urban areas, about 50% of the population lacks complementary infrastructure, and 68% face significant shortcomings in urban environments [8].⁹ The data collected by the Bank's Emerging and Sustainable Cities Initiative in eight Mexican cities¹⁰ revealed an absence of adequate public spaces and green areas there. For example, the average indicator of public space per person was four square meters, below the regional benchmark of seven square meters per person. Moreover, for low-income urban developments in periurban areas, both formal and informal, this proportion is usually even lower than the average for the city where they are located [9].
- 1.9 Gaps in terms of urban infrastructure, facilities, and public spaces restrict development opportunities for the most vulnerable populations, sharpening intraurban inequalities (Organization for Economic Cooperation and Development, 2018; Wei, 2015). An inadequate supply of basic and complementary services is associated with declines in the overall health of the population, lower labor market participation, and higher vulnerability to natural and adverse health events (IDB, 2020b; Perlman, 2010).¹¹ Moreover, recent studies showed the link between the disadvantaged condition of a neighborhood and the future socioeconomic development of children and teenagers who grow up there. This suggests that limited access to urban infrastructure, services, and amenities contributes to the intergenerational transmission of poverty [10].
- 1.10 Likewise, land tenure, and therefore home ownership, remains a major challenge for millions of Mexicans. The National Institute for Sustainable Land ([INSUS](#)) estimates that the country has between 7 million and 7.5 million unregulated urban lots. Furthermore, one out of six occupied owned homes lack secure tenure because they do not have titles [11].¹² Every year, this number grows by 90,000 new dwellings that lack access to services and facilities and are vulnerable to natural events [12].
- 1.11 In addition, the recording of the title deed is often very expensive for low-income populations. Estimates are that the notarial expenses for recordation may be up to 10% of the real estate's value. This limits full rights over the property, increases cases of eviction or encroachment, and decreases the ability to access bank loans (SEDATU, 2019). These issues intensify because of the limited capacity of local governments to support the regularization process.

⁹ Complementary infrastructure includes street lighting and paved streets, whereas deficiencies in the urban environment include streets, sidewalks, curbs, signage, landscaping, and other features (Population and Housing Census, National Institute of Statistics and Geography (INEGI), 2010).

¹⁰ Campeche, Coatzacoalcas, Hermosillo, La Paz, Lázaro Cárdenas, Salina Cruz, Tapachula, and Xalapa.

¹¹ Inadequate service delivery is also associated with higher spending on livelihood activities, limiting the ability of households to build up savings. In Salina Cruz, Oaxaca, people living in informal settlements northeast and southeast of the city pay up to 60% more per cubic meter of water consumed than the public service rate. Also, on average, they spend 11% more of their income on transportation to the workplace than residents inside the city (IDB, 2018).

¹² Urban land titles are exclusive, transferrable, alienable, and enforceable rights over a lot (Gershon and Feeny, 1991). Recording shows that land ownership was authenticated. Once the recording process is complete, a record search is unnecessary to establish the chain of title for the property (Panaritis, 2007).

SEDATU estimates that nearly 90% of urban municipios have either not updated or totally lack programs to guide the land regularization process.¹³

- 1.12 The current urbanization model has created significant challenges throughout the country. For instance, in the Center and North regions, 59.4% of the population score medium, high, or very high on the Urban and Social Gap Index, whereas in the South-Southeast region, the figure is 71.7% (approximately 7.2 million people). At an intraurban level, in the municipios of the Center and North regions, 70.9% of the *manzanas*¹⁴ score medium or above on the index, whereas in the South-Southeast region, the figure is 82.7% (Table 1).

Table 1. Urban and social gaps in regions of Mexico

	National (%)	Center-North (%)	South-Southeast** (%)
Municipal average, urban and social gaps*	0.480	0.468	0.513
<i>Manzanas</i> with medium, high, or very high urban and social gaps as a percentage of the municipal total	74.1	70.9	82.7
Medium urban and social gaps	64.4	63.8	65.9
High urban and social gaps	9.2	6.8	16
Very high urban and social gaps	0.4	0.3	0.8
Percentage of the population in <i>manzanas</i> with medium, high, or very high urban and social gaps (%)	61.2	59.4	71.7

Source: Urban and Social Gap Index database. SEDATU, 2020.

* Simple average urban and social gaps by *manzana*.

** The South-Southeast region consists of these states: Campeche, Chiapas, Guerrero, Quintana Roo, Oaxaca, Tabasco, Veracruz, and Yucatán.

- 1.13 The gaps and deficits are overlaid on other pre-existing inequalities. In terms of gender differences, in 2016 nearly 40% of women over age 15 reported experiencing an incident of violence in public spaces in their lifetime, and 23% said it had happened during the past year [15]. More than 40% of women in urban areas live in homes without title, and that number is above 60% for indigenous women [15]. The design of public spaces and urban spatial planning can impact the safety of women traveling to their jobs and places of study, improving their socioeconomic prospects [16].
- 1.14 According to 2015 data, 55.5% of the indigenous population lives in highly or very highly marginalized municipios,^{15, 16} mainly in the South-Southeast region, and 87.5% of indigenous municipios (where more than 40% of the population are indigenous) live in highly or very highly marginalized conditions [17]. Additionally, Afro-Mexicans (1.16% of the country's population) are concentrated in Veracruz,

¹³ Quoted from an interview with Secretary Román Meyer Falcón. Grupo En Concreto, 22 July 2020. "In Mexico, 90% of municipios lack land regularization programs."

¹⁴ *Manzana* is a unit equivalent to one block.

¹⁵ The Marginalization Index is a combined indicator prepared by CONAPO that classifies federative entities and municipios based on their population's disparities. These include lack of access to education, living in inadequate housing, perception of insufficient income, and living in small towns. Several subcomponents of the Marginalization Index feed into the Urban and Social Gap Index prepared by SEDATU.

¹⁶ One out of three indigenous people lives in a city. The cities with the largest indigenous populations are Mexico City, Mérida, Puebla, Cancún, Oaxaca, and Toluca (Mendoza, 2010).

Oaxaca, and Guerrero, where they account for 7% of the local population [18]. Improving urban spaces for community and recreation can narrow gaps and offer opportunities to integrate these populations into the city, which has been recognized as part of the State's obligations since 2001 [19].

- 1.15 In Mexico, 19% of households have at least one person with a disability; reduced mobility is the most common disability [20]. Moreover, 49.4% of persons with disabilities are living in poverty [21], and 25.1% were victims of discrimination [22], particularly on public roads and transportation systems. This program will help improve public spaces through universal accessibility, contributing to the inclusion and autonomy of these vulnerable groups.
- 1.16 From another perspective, sustainable urban development is a key tool in the fight against climate change. Cities consume 80% of energy worldwide [23]. Over time, urban development generates mobility and consumption patterns that define the amount of greenhouse gas emissions and determine a city's ability to mitigate them. Significantly, for its Nationally Determined Contribution under the Paris Agreement, Mexico committed to reducing 22% of its greenhouse gas emissions. For Mexican cities, this target requires intentional planning that reduces transportation needs, provides alternative mobility methods, promotes less carbon intensive value chains and more sustainable design in construction, ensures spaces for carbon sinks, and establishes local climate regulations.
- 1.17 Most vulnerability to climate change is concentrated in cities, where pre-existing risks and inequalities are getting worse [24]. In Mexico,¹⁷ the annual cost due to extreme events between 2000 and 2018 was US\$2.357 billion, 86.8% of which was due to hydrometeorological hazards ([National Center for Disaster Prevention \(CENAPRED\)](#), 2018), not only because of an increase in the frequency of these types of events but also due to higher exposure. Moreover, nationwide, the municipios with higher vulnerability to climate change are in the South-Southeast region [25].
- 1.18 **Rationale.** Remediating the urban and social gaps affecting two thirds of the country's urban population requires long-term preventive actions, including implementation of the LGAHOTDU through municipal planning. It will also involve corrective actions such as investing in urban infrastructure, public spaces, and facilities to improve quality of life for low-income families and contribute to breaking the vicious circle of marginalization and informal urbanization.
- 1.19 SEDATU created the Urban Improvement Program (PMU) in 2019 with a firm commitment to sustainably contribute to narrowing urban and social gaps in priority target areas of Mexican cities. The PMU promotes a series of corrective measures—such as comprehensive neighborhood improvement, regularization, and legal certainty—and preventive measures under an urban planning component. Mexico has thus requested the Bank's support in implementing the PMU through an instrument like the conditional credit line for investment projects (CCLIP) that can provide medium- and long-term financial and specialized technical support to meet

¹⁷ Mexico has high exposure to natural hazards that are intensified by climate change. By 2090, estimates are that mean annual temperature will increase between 1.3°C and 4.8°C, and annual precipitation could decrease by combined median values of -3% to -15% ([World Bank](#)), while periods of heavy rainfall may increase. In this context, interventions will be promoted that take resilience criteria into account.

development objectives and narrow existing urban physical and social gaps throughout the country, based on the scope described in Table 1.

- 1.20 The 2019-2020 design assessment of the PMU highlighted some of its strengths: (i) an adequate characterization of the target population based on information from the National Urban System and the Urban and Social Gap Index; and (ii) a long-term commitment to the program, as a strategic program of the 2019-2024 National Development Plan. The same assessment indicated room for improvement in the need for: (i) better inclusion of the crosscutting issues recognized in the National Development Plan, such as gender equality, climate change, and serving the indigenous population; and (ii) strengthening of a prioritization strategy in the country.
- 1.21 Under the General Law on Human Settlements, Land Use Management, and Urban Development (LGAHOTDU), SEDATU acts as both apex agency for the sector and formulator of public policies. This department works by compensating for the limitations of municipios and supporting them directly in the areas of social infrastructure provision, property regularization, and planning. The LGAHOTDU regulates the autonomy of municipios in terms of land use planning, promoting intergovernmental and institutional coordination with a focus on finding common ground in the area of urban development. By ensuring alignment of state and local programs with a long-run vision, the LGAHOTDU creates a hierarchical planning system.
- 1.22 The Bank has worked with SEDATU for several years. The most recent operations, approved in 2018 and 2019 (loans [4535/OC-ME](#) and [4954/OC-ME](#)), were designed to support Mexico's policy reform program for implementation of the LGAHOTDU by contributing to create a new institutional structure for the urban sector. The experience gained by Mexico and the Bank with these programs emphasizes the importance of policies and programs associated with land management for the narrowing of sociospatial gaps. In addition, both the Bank's experience and the specialized literature point to the need to resolve historical gaps in access to basic and social services, as well as to provide secure land tenure for those living in informal settlements, in order to achieve more inclusive, resilient, and sustainable development [26].
- 1.23 Urban design for social integration and promotion of recreational activities is a point of entry to break the vicious circle of violence and inequality in access to urban services.¹⁸ Studies show how expanding the effective coverage of social services yields high returns in terms of health, nutrition, education, and other quality-of-life indicators [27]. This program, by financing the physical spaces identified by the municipios in the urban action plan¹⁹ to accommodate existing federal and state social programs, will facilitate the physical expansion of health, educational, and recreational services for disadvantaged families.
- 1.24 As with social infrastructure, providing basic services, facilities, and public spaces to disadvantaged communities is associated with improved local quality-of-life indicators, as well as access to education and employment for future generations [28]. An evaluation of physical and social infrastructure programs in South Africa suggested a positive association between the delivery of

¹⁸ There is wide-ranging literature on how access to public spaces and recreational and cultural activities prevents violence, as long as these types of interventions are supplemented with institutional measures to control crime and violence (Shepley, 2019; Branas, 2018).

¹⁹ Document identifying priority sites, the portfolio of actions, the projects eligible for funding, and amounts.

basic services and indicators of economic growth, social development, and equity in income distribution in the targeted communities, acknowledging the importance of taking cultural considerations into account in land management [29]. A review of comprehensive neighborhood improvement programs in Brazil, Chile, and Guatemala also showed increases in community social capital [30]. Moreover, the impact evaluation of the Habitat Program in Mexico, which included the creation of community centers offering a range of services and activities for youth and adults, also found an increase in trust among neighbors and a greater sense of belonging to a neighborhood [31].

- 1.25 Land tenure insecurity can directly impact household access to basic urban services by discouraging improvements and public and private investments in individual settlements. Whereas land tenure insecurity feeds back into the vicious circle of social exclusion and poverty,[32] land tenure security is associated with fostering private investment for improved housing and better quality-of-life indicators for beneficiary households in the medium and long term [33].²⁰ Recent studies also show that land tenure security influences household decisions regarding human capital accumulation. For example, Galiani and Schargrotsky (2010) analyzed a natural regularization experiment in Buenos Aires, finding that titling had a positive effect on the school achievement of children and adolescents, as well as reducing average household size.
- 1.26 In parallel, effective urban and land planning has the potential to model the forms and functions of cities and regions, while making sustainable development economically, socially, and environmentally viable [34]. With an effective planning process, efforts can be redirected to serve the needs of the most vulnerable groups, particularly those in critical and at-risk areas [35]. International experience demonstrates that effective application of regulatory frameworks for land-use management translates into orderly growth of cities and creates incentives better land use. An impact evaluation of Colombia's Land Development Act found that city planning has resulted in better quality land inside these cities [36]. The implementation of land-use management plans and planning mechanisms helped control large-scale urban expansion, enabling priority land uses that relate to compaction models, which directly impacted the supply of low-income housing [37].²¹
- 1.27 **The IDB Group's experience in Mexico.** The Bank has worked with Mexico in the sector via several windows: (i) the public sector window has worked with Sociedad Hipotecaria Federal, the National Housing Commission (CONAVI), and the Institute of the National Housing Fund for Workers (INFONAVIT) to expand access to housing finance and developed an innovative green housing approach with the Ecocasa program; (ii) IDB Invest has provided equity, financing, and guarantees to low-income-housing developers; and (iii) IDB Lab has strengthened entities to issue microloans for home improvement and supported construction innovation laboratories. In addition, the Bank supported SEDATU in the execution of its Habitat Program for more than a decade, targeting urban neighborhoods to improve their infrastructure and facilities. The IDB recently supported implementation of the LGAHOTDU with two policy-based loans and two technical cooperation operations. Moreover, with the National Bank of Public Works and Services (BANOBRAS), the

²⁰ For the national land titling program evaluated in this study (Peru), the housing renovation rate increased by more than two thirds with respect to the baseline.

²¹ For example, 33 million square meters of housing were built in Bogota between 2002 and 2011, 34% of which was low-income housing.

Bank designed eight action plans in the country under the Emerging and Sustainable Cities Initiative, mainly in the South-Southeast region.

- 1.28 The impact evaluation for the Habitat Program in Mexico (loans 1928/OC-ME and 2569/OC-ME)²² provides large-scale experimental evidence of the effectiveness of multisector investments in improving neighborhood infrastructure quality and access. Between 2009 and 2011, the program provided federal funding for local infrastructure, such as water and sewer systems, electricity, street lighting, sidewalks, paved roads, community centers, parks, and sports facilities. By comparing beneficiary and nonbeneficiary areas, the evaluation showed large improvements in neighborhood features with low baseline values, such as paving and transitability [38]. A positive impact was also seen on private investment in housing: households in beneficiary neighborhoods were more likely to install cement floors and toilets compared to their nonbeneficiary peers [38].
- 1.29 **Lessons learned.** The Bank's urban development experience in the region shows that: (i) projects are more effective when designed with a comprehensive, interdisciplinary approach; (ii) interventions need to involve citizen participation in both design and monitoring; (iii) it is important to address risk factors associated with violence and personal safety issues as a complement to the infrastructure and facilities; and (iv) it is important to develop investments within a planning framework that allows effective local coordination, maximizing their potential social impact. The benefits of this approach are proven by experience and research demonstrating that improving the physical environment is a precondition to gains in terms of socioeconomic development. This operation's regional approach reflects these lessons, since it fosters local coordination of urban infrastructure projects characterized by community participation in design and execution within an urban planning framework, incorporating crosscutting issues such as gender, diversity, and climate change.
- 1.30 Operationally, lessons learned from SEDATU and Habitat were also incorporated: (i) the importance of planning to keep from spreading federal and municipal program investments too thin; and (ii) the need to assist local authorities in commissioning and maintaining urban facilities. The experience with Habitat showed that community facilities are best maintained and used when the municipio coordinated the use of space with established federal and municipal programs. This happened in early childcare centers, doctor's offices, dining halls, and through courses offered by the labor and education departments. This operation incorporates these lessons: (i) the preparation of urban action plans is an eligibility criterion for the planned actions; and (ii) SEDATU offers municipios spaces for federal programs to operate.
- 1.31 **Nonfinancial additionality.** The Bank's value-added comes from long-standing cooperation with SEDATU, where crosscutting themes such as gender, diversity, and climate change have been addressed from both the policy and programmatic perspectives.²³ Continuing this work, part of the program's strategy and the longer-term effort of the proposed CCLIP is the complementarity of this operation with a technical cooperation operation focused on the crosscutting issues of the

²² That program is different from this operation because it was executed by municipios and covered the country without geographically targeted criteria.

²³ For example, with technical cooperation operations ATN/OC-16447-ME and ATN/JF-16577-ME.

PMU²⁴ and support for program design. SEDATU has been working on climate change and gender and inclusion issues, making commitments and implementing initiatives to address them. Factors were identified during the preparation stage of this operation to round out this strategy and will be adopted as the program progresses. In turn, outputs from the technical cooperation operation will feed into program components during the execution period to: (i) strengthen SEDATU with technical assistance on environmental and social safeguard issues, to track the issues identified in the strategic environmental and social management plan (SESMP); (ii) address the crosscutting themes of gender, diversity, and universal access; (iii) incorporate the issues of climate change, resilience, and sustainability into investment planning and execution;²⁵ and (iv) support the institutional strengthening of SEDATU. These outputs from the technical cooperation operation will be incorporated into the annual review of the program Operations Manual. Updates will be made in due course in the following areas and others: (i) measures to address gender and diversity issues in the design and execution of specific investments; (ii) alignment of activities with the commitments of Mexico's Special Program for Climate Change (PECC);²⁶ (iii) engagement mechanisms utilizing cutting-edge social innovation methodologies; and (iv) urban coproduction tools and processes that enable greater participation and transparency in urban project design ([optional link 5](#)).

- 1.32 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2), since it addresses the development challenges of: (i) social inclusion and equality, by improving access to urban infrastructure and facilities for people living in areas with larger urban gaps; and (ii) productivity and innovation, by contributing to the development, transformation, and adoption of methods associated with social innovation applied to urban planning.²⁷ It is also aligned with the crosscutting issues of: (i) gender equality and diversity, by promoting inclusive urban design with a gender and diversity focus through community-based diagnostic assessments and participatory designs included in the program Operations Manual;²⁸ (ii) climate change and environmental sustainability, based on the [joint methodology of the multilateral development banks for tracking climate finance](#), under which an estimated 53.75% of program resources will be invested in climate finance activities;²⁹ and (iii) institutional capacity and rule of law, by strengthening the institutional structure for urban development and the regularization of land ownership. The program also contributes to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the following

²⁴ The objectives of a US\$250,000 technical cooperation operation, now in preparation, include supporting these crosscutting issues.

²⁵ On this issue, the team will continue cooperating with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), which is implementing a technical-assistance program for the inclusion of climate-change issues.

²⁶ Among SEDATU's commitments for the Special Program for Climate Change (PECC) is to "Build and/or renovate urban infrastructure, urban facilities, public spaces, mobility, or connectivity projects that contribute to mitigation and/or adaptation to climate change." The Infrastructure and Public Spaces Programs Support Unit is responsible for this, which is fully aligned with the proposed operation.

²⁷ "The Transformative Power of Social Innovation in Urban Planning and Local Development" by Torill Nyseth and Abdelillah Hamdouch. Urban Planning 2019, volume 4, issue 1, pp. 1-6.

²⁸ For example, inclusion of women's shelters in situations of gender aggression, criteria for improving the perception of safety in public spaces, and inclusive signage.

²⁹ For more details, see [optional link 3](#).

indicators: “Value of investments in resilient and/or low-carbon infrastructure” and “Projects with considerable disaster and climate change risk that applied risk analysis to identify resilience actions.”³⁰ This program also contributes to the Sector Strategy: Institutions for Growth and Social Welfare (document GN-2587-2) by strengthening public management and institutional capacity.

- 1.33 This operation also contributes to: (i) the Housing and Urban Development Sector Framework Document (document GN-2732-11), by making neighborhood improvement actions more sustainable through increased community social capital; (ii) the Gender and Diversity Sector Framework Document (document GN-2800-8), by developing safe public spaces and improving access to quality, culturally relevant public services ([optional link 4](#)); (iii) the Climate Change Sector Framework Document (document GN-2835-8), by strengthening urban resilience ([optional link 3](#)); and (iv) the Transportation Sector Framework Document (document GN-2740-12), by contributing to urban mobility. The program is aligned with the IDB Group Country Strategy with Mexico (2019-2024) (document GN-2982) in two of its priority areas: “Supporting sustainable, equitable access to social services,” by developing infrastructure that facilitates improvements in health and education services, two of its strategic objectives; and “Fostering more balanced and sustainable regional development,” by supporting its strategic objective of improving land planning. Lastly, the operation is included in the Update of Annex III of the 2020 Operational Program Report (document GN-2991-3).

B. Objectives, components, and cost

- 1.34 **Objective of the CCLIP.** Contribute to narrowing urban and social gaps by improving access to goods and services for people living in areas with medium, high, and very high urban and social gaps in eligible municipios.
- 1.35 **Objective of the first operation under the CCLIP.** The specific objectives of the first program under the CCLIP are: (i) to improve access to public spaces and urban facilities; (ii) to contribute to legal certainty as to land tenure; and (iii) to improve planning tools at the municipal, metropolitan, and state levels.
- 1.36 **Program eligibility criteria.** For the program design, the beneficiary municipios were selected because they: (i) are located in the action area for priority projects in the National Development Plan; and (ii) have an urban action plan³¹ approved by SEDATU as a framework for investments or (iii) are an institutional project, as defined in the PMU operating rules.³²
- 1.37 **Component 1. Comprehensive neighborhood improvement (IDB: US\$291 million).** The objective of this component is to promote equity and social inclusion through improved access to urban facilities, through: (i) the construction, expansion, opening, and/or renovation of urban facilities and public spaces for: (a) education and culture, such as kindergartens, childhood development centers, schools, libraries, cultural centers, and auditoriums (up to 44 works); (b) health and social assistance, such as urban health centers, community development centers, and preschools (up to 25 works); (c) commerce and supply, such as

³⁰ See risk narrative in [optional link 3](#).

³¹ Urban action plans do not substitute for the planning exercises included in Component 3.

³² Chapter 9 of the program Operations Manual defines institutional projects as those benefitting indigenous and Afro-Mexican communities.

- public markets, plazas, commercial corridors, and shopping strips (up to 7 works); (d) communication, mobility, and transportation, such as bus stations and multimodal transfer and transportation centers (up to 22 works); (e) recreation and sports, such as park strips, playgrounds, public plazas, sports complexes, gyms, or sports amenities (up to 161 works); and (f) public administration and urban services, such as city halls and fire stations (up to 8 works);³³ and (ii) furniture and equipment to revitalize public spaces and urban facilities where existing federal programs are located. This could be for childcare, assistance for people with disabilities, education, health, or promoting economic activities and jobs.
- 1.38 Sustainable infrastructure principles are built into the design and construction of these urban facilities,³⁴ along with evaluation tools and bioclimatic design guidelines, with community involvement as a focal point of the design.³⁵ The design and rehabilitation activities for the urban facilities and public spaces may incorporate situational crime prevention criteria, known at SEDATU as the “Ciudad methodology,”³⁶ contributing to the creation of safe public spaces, as well as other inclusion and accessibility measures listed in the “Gender and diversity annex” ([optional link 4](#)) and described in the program Operations Manual. A priority in design and execution of the works is to connect the targeted sectors to the city, contributing to reduce the socio-spatial segregation of cities.
- 1.39 **Prioritization criteria.** In identifying the works under this component in the program design, priority was given to areas of eligible municipios where: (i) there are clusters of *manzanas* with medium, high, and very high urban and social gaps; (ii) there are indigenous and Afro-Mexican people and communities; and (iii) climate change adaptation and mitigation measures are urgently needed.
- 1.40 **Component 2. Regularization and legal certainty (IDB: US\$6 million).** The objective of this component is to contribute to the regularization of lots with public services. The final beneficiaries will be municipal and state entities, due to increased revenue from the payment of fees and charges deriving from regularization. Orderly development and land use planning will also be promoted through efficient land use, making it possible to support the necessary social well-being of the population for clearing the existing housing backlog.
- 1.41 This component also calls for actions contributing to legal certainty for residential lots³⁷ through a release agreement that allows the deed to be registered in the Public Registry of Property, providing legal certainty as to land tenure. The regularization of such lots in urban communities also contributes to their improvement and consolidation, since synergies are achieved for actions in other

³³ The complete list of works is available in the [monitoring and evaluation plan](#).

³⁴ Based on the Bank’s “Framework for Sustainable Infrastructure,” available in this [document](#).

³⁵ In accordance with the program Operations Manual (Citizen Participation Modality), community centers will support the design, dissemination, implementation, and monitoring of activities. The community centers will be responsible for preparing, implementing, and evaluating a work plan in coordination with the community committee for each project.

³⁶ This is a multidisciplinary approach to deter criminals through urban environmental design. Crime Prevention Through Environmental Design (CPTED) strategies are characterized by installing lighting, avoiding enclosed and hard-to-access spaces, and rehabilitating rundown areas, in order to enable natural surveillance of its area by the community.

³⁷ The areas to be regularized are those with a determination of no risk (of natural hazards) under applicable legislation.

areas such as building infrastructure for basic services, health, safety, education, etc. The application requirements will be established in the PMU operating rules.

- 1.42 This component guarantees the program's comprehensive approach, making it possible to link regularization to the mitigation of other types of social gaps and shortfalls, consolidating formal, sustainable urban areas.
- 1.43 **Component 3. Territorial and urban planning at the subnational level (IDB: US\$2.4 million).** The objective of this component is to improve planning tools through formulation, adjustment, or revision of the planning instruments established in the General Law on Human Settlements, Land Use Management, and Urban Development (LGAHOTDU) ([optional link 2](#)). Land use management programs will contribute to better land use planning, which in turn will make actions possible in several different areas, including public infrastructure generation, basic service delivery, and others, enabling priority attention to areas with the greatest urban lag and the reduction of territorial inequalities.
- 1.44 This component will contribute to the preparation of: (i) preliminary drafts of up to 53 municipal urban development plans or programs; (ii) preliminary drafts of up to 4 metropolitan programs; and (iii) preliminary drafts of up to 4 state programs for land-use management. A technical diagnostic assessment will also be done on urban, territorial, environmental, gender and diversity, and climate change regulations. The component will also include the preparation of land use management and planning proposals, as well as plans and programs and their management instruments. SEDATU will be responsible for the execution of this planning component, in close coordination with the entities receiving them.
- 1.45 **Program administration (IDB: US\$0.6 million).** SEDATU will benefit from institutional capacity-building in the areas of procurement, monitoring, and evaluation, the midterm and final evaluations, and audits.

C. Key results indicators

- 1.46 **Expected outcomes and beneficiaries.** As shown in the Results Matrix, the direct beneficiaries will be the residents of the areas targeted for intervention. The expected outcomes include: (i) increased access to public spaces and urban facilities for residents of eligible municipios; (ii) provision of legal certainty as to land tenure in eligible municipios and *manzanas*; and (iii) improved planning tools at the municipal, metropolitan, and state levels.³⁸ Lastly, since urban infrastructure works have a high investment/employment ratio, this will create job opportunities in the targeted locations. Recent calculations by Centeno-Cruz, M., P. Campoy-Muñoz, and G. Ángeles-Castro (2019) suggest that each million pesos invested in the construction sector creates on average 3.34 jobs [39].³⁹ Based on these estimates, the investment program could create approximately 33,317 direct and indirect jobs.
- 1.47 **Economic analysis ([optional link 1](#)).** The economic analysis compared the unit costs of Component 1 works to the costs of similar recent works for the PMU (2019 and 2020), as well as similar Bank-financed works in Argentina and Peru. The cost-efficiency methodology was used for this analysis. The analysis concluded

³⁸ A projected total of 4.8 million beneficiaries (direct and indirect) in 60 municipios.

³⁹ On average, the job multiplier—based on the SAMMEX-12 social accounting matrix—for the economy's 19 sectors is 2.85.

that this operation's average unit costs are within suitable ranges compared to the average unit costs in the 2019-2020 portfolio of SEDATU. They are even below the reference costs of other urban improvement projects in the region. Moreover, using the program's cost of works database, a resampling technique was employed to obtain a confidence interval for average unit costs per type of system. The efficiency indicators showed that, on average, unit costs remain within reasonable ranges compared to reference costs.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Costs and programming for the first individual operation under the CCLIP.** The first operation will be structured as a specific investment program, with a certain number of interventions defined by their urban sector characteristics (Component 1), type of funding (Component 2), and type of planning exercise defined in the General Law on Human Settlements, Land Use Management, and Urban Development (LGAHOTDU) (Component 3). For Component 1, the interventions are based on project categories for their use, applicable design, and cost, along with the investment amount per category for each year of execution.
- 2.2 The first program, for US\$300 million, will be financed from the Bank's Ordinary Capital resources. Proceeds from the Bank will be disbursed over four years running from the effective date of the Loan Contract based on the table of estimated program costs and its disbursement schedule. The disbursement period was established according to the budget allocated to the program by the Department of Agricultural, Territorial, and Urban Development (SEDATU) and its execution capacity in previous years.

Table 2. Estimated program costs (US\$)

Components	IDB	%
Component 1. Comprehensive neighborhood improvement	291,000,000	97
a. Education and culture	41,745,250	
b. Health and social assistance	18,508,743	
c. Commerce and supply	17,115,590	
d. Communication, mobility, and connectivity	13,958,563	
e. Recreation and sports	193,207,701	
f. Public administration and urban services	6,464,154	
Component 2. Regularization and legal certainty	6,000,000	2
Component 3. Territorial and urban planning at the subnational level	2,400,000	0.8
Other costs	600,000	0.2
a. Technical assistance for procurement	132,000	
b. Technical assistance for monitoring and evaluation	132,000	
c. Audits	120,000	
d. Midterm and final review	216,000	
Total	300,000,000	100

Table 3. Projected Bank disbursements (US\$ million)

IDB (OC)	Year 1	Year 2	Year 3	Year 4	Total
US\$ million	167.74	47.68	45.11	39.46	300
%	55.91	15.89	15.04	13.15	100

B. Environmental and social safeguard risks

- 2.3 A strategic environmental and social assessment (SESA) was prepared to evaluate the program's environmental and social risks. This included a sociocultural analysis that considered the percentage of indigenous people living in the South-Southeast region, which is the operation's main focus. The conclusion based on the assessment's results is that the potential risks and impacts will be temporary and concentrated, and can be mitigated. This operation was therefore classified as a category "B" with substantial risk.
- 2.4 The strategic environmental and social management plan (SESMP) includes mitigation measures to address these risks, including: (i) a list of category "A" projects that will not be eligible for the program; and (ii) specific measures to address the impacts and risks by type of safeguard.⁴⁰ The SESMP will be incorporated into the program Operations Manual for implementation during the execution.
- 2.5 One of the key risks identified is the lack of a specialized team for the program's environmental and social management, even though there are solid participatory instruments to involve beneficiaries in project design and monitoring. Accordingly, the program's environmental management verification and monitoring mechanisms should be strengthened. For this purpose, the project team and SEDATU have agreed on the need for technical assistance services to strengthen technical capabilities in the environmental and social area during program execution (see paragraph 1.31).
- 2.6 Between 19 and 21 October 2020, a significant consultation process was carried out with project stakeholders in the municipios of Mérida, Playa del Carmen, and Palenque, offering a representative overview of the South-Southeast region, given its diverse characteristics. A total of 75 participants were registered (37 women), including beneficiaries and potential community beneficiaries, representatives of city councils, neighborhood organizations, and neighborhood committees, local and federal representatives of SEDATU and INSUS, and others. At the executing agency's request, the interactive workshops (second stage of the consultations) were held in person, ensuring that the measures established by the federal and state health protocols were in place. The projects have generally been well received, given the gaps and shortfalls faced and expressed by the consulted communities. Some of the most relevant topics addressed were the need for participatory design and transparency of the subprojects, the emphasis on basic diagnostic assessments and environmental and social risk analysis of each subproject, urban planning and cadastral regularization, and coordination between SEDATU and city councils. The outcomes of the consultation process have been integrated at length into the final versions of the SESA and the SESMP.
- 2.7 Based on the deadlines and milestones established in Operational Policies OP-703 and OP-102, the SESA and the SESMP (including the consultation outcomes) have published on the [Bank's website](#).

⁴⁰ The SESMP considers the environmental and social risks identified in the Institutional Capacity Assessment Platform (ICAP) evaluation.

C. Fiduciary risks

- 2.8 The Institutional Capacity Assessment Platform (ICAP) evaluation of the executing agency in August 2020 showed a medium-low fiduciary risk, resulting from a potential delay in procurement execution due to the executing agency's lack of knowledge of the Bank's procurement policies. However, this risk will be mitigated by the contracting of technical assistance for SEDATU, training on the Bank's procurement policies to the executing agency, and support from Nacional Financiera S.N.C. (NAFIN) and the IDB team.

D. Other key risks and issues

- 2.9 Based on the risk analysis workshop, the risks were determined as medium-low or low, so no risk response plan is required. The following were identified: (i) two risks related to the governance system, with respect to the prolonged continuation of the COVID-19 pandemic, which would impact the execution of works and citizen participation in decision-making to select the investments, both of which could impact the delivery timetable for the works; (ii) a sustainability risk, if municipal governments fail to budget resources for operation and maintenance of the finished works delivered to them, in which case some of these works might be underutilized or neglected, impacting the objective of improving the targeted neighborhood; (iii) an institutional risk, if the federal and municipal governments that are the beneficiaries of the works to be built fail to establish fluid communication for their launch, which would impact the execution timetable; and (iv) a political risk related to the change of authorities in municipal governments benefitted by the program after elections to be held during program execution that could impact commitment agreements between the federal and local levels, which require approval within three months and could be delayed by an average of six months, or even not occur, impacting the delivery timetable for the Component 1 outputs. To mitigate these risks, the program includes consultation activities with the beneficiaries of investments and subnational entities, so that early commitments can be secured from all parties.
- 2.10 **Sustainability.** The program's design includes various measures to mitigate the medium-low risks identified above. Specifically, the sustainability and continuity of interventions will be reinforced through: (i) the municipio's active participation in the decision regarding the location and prioritization of facilities, through the urban action plans signed with SEDATU; (ii) the municipal coordination agreement with SEDATU, establishing the municipio's responsibilities during construction and subsequent maintenance; and (iii) the citizen participation included in the program to support design and execution, which will require maintenance and proper operation, since the citizens will be the direct users of the facilities. In addition, in line with lessons learned from similar programs, SEDATU will coordinate the provision of federal programs in municipios, to select activities suitable to the sector with continuity over time. Lastly, to avoid delays in the launch of facilities, the program is considering including resources to finance the operation of some facilities during the first year.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower is the United Mexican States, acting through the Department of Finance and Public Credit (SHCP). The Department of Agricultural, Territorial, and Urban Development (SEDATU) will be the executing agency for the program's three components, acting through its divisions, administrative units, and sector entities. Nacional Financiera S.N.C. (NAFIN) will act as the borrower's financial agent for the operation.
- 3.2 **Execution and administration.**⁴¹ For the Urban Improvement Program (PMU), which has been in execution since 2019, SEDATU has established an internal PMU implementation team.⁴² This operation's execution aligns with the existing project cycle of the PMU, and each of its components corresponds to a component of the PMU.
- 3.3 The findings of the Institutional Capacity Assessment Platform (ICAP) assessment confirmed that SEDATU has high capacity to perform the activities of supervision and monitoring, financial management, and administration of the program resources. The opportunities for improvement identified, and actions to address them, are as follows: (i) the areas responsible for financial management and procurement will participate in training workshops on preparing reports and disbursement requests and applying procurement policies, and technical assistance will be contracted for procurement; (ii) when the executing agency executes the works, technical assistance services should be contracted to build its capacity in the areas of environmental and social safeguards, and to ensure that projects comply with environmental and social laws and regulations and with the Bank's safeguards; and (iii) the executing agency should have a comprehensive system for control, monitoring, and supervision of each action of the PMU and for each stage of its implementation.
- 3.4 SEDATU's Office of the Deputy Secretary of Urban Development and Housing will exercise general coordination of this program, setting the rules governing the PMU, with the following main responsibilities: (i) publish the announcements for participation in the program; (ii) issue the distribution notice for loan resources; (iii) sign the cooperation and coordination agreements for program operation; (iv) supervise the operation and use of program resources; and (v) authorize the redistribution and reallocation of program resources, after consultation with the Bank and the borrower. The institutional planning and development unit will have the following responsibilities: (i) direct, plan, schedule, and coordinate program execution; and (ii) establish the mechanisms for interagency coordination.
- 3.5 SEDATU's Infrastructure and Public Spaces Programs Support Unit will act as the program responsible unit (PRU). The main duties of the PRU are: (i) act as a single point of contact with the Bank and the financial agent for sending and receiving information for program execution; (ii) propose competitions for the selection of actions meeting the eligibility criteria prior to sending them to the general coordinator; (iii) prepare the six-monthly and final program execution reports to be

⁴¹ This section summarizes the internal regulations of SEDATU and the PMU's rules of operation.

⁴² In 2019, the PMU executed nearly 500 works under its comprehensive neighborhood improvement component in more than 15 municipios, for a total of US\$365 million. See the 2019-2020 PMU design assessment. SEDATU.

- submitted to the general coordinator; (iv) review and keep the program's procurement plan up to date ([required link 4](#)); (v) coordinate actions to plan, program, execute, and control program resources; (vi) submit proposals to the general coordinator for the redistribution and reallocation of program resources; and (vii) review and consolidate the documentary evidence of the actions undertaken for the three components and request the disbursement of loan proceeds from the Bank through the financial agent, NAFIN.
- 3.6 For the activities under Component 1, the Strategic Urban Development Projects Unit will be responsible for the preparation, programming, tendering, execution, supervision, monitoring, and completion of PMU projects. The Programming and Budget Division will support the PRU and the Strategic Urban Development Projects Unit as the office responsible for financial management of the program resources. The Material Resources and General Services Division will be responsible for managing procurements for the actions in the program's procurement plan.
- 3.7 For implementation of the activities under Component 2, the National Institute for Sustainable Land (INSUS)⁴³ will act as the subexecuting agency, in close coordination with the PRU. INSUS will introduce the program to its offices in the federative entities⁴⁴ included in the operation. These offices will perform the actions for the PMU and process records for the Public Registry of Property. SEDATU and INSUS will sign an interagency agreement regarding the execution and implementation of specific activities for Component 2, pursuant to the terms and conditions of the Loan Contract.
- 3.8 For Component 3, SEDATU's Urban Development, Land, and Housing Division will be responsible for procurements.
- 3.9 NAFIN will participate in the program as financial agent. Its main duties are: (i) obtain the updated procurement plan from the PRU; (ii) verify that the Bank's procurement policies are being followed, and provide advice to the area responsible for the competitive bidding and procurement processes; (iii) request documentation from the PRU regarding the competitive bidding and procurement processes, for submission to the Bank if there is an ex ante review; (iv) manage resource disbursement processes with the Bank; (v) ensure compliance with contractual commitments; and (vi) work with the PRU to organize the Bank's supervision, monitoring, and evaluation visits.
- 3.10 **Interagency coordination.** SEDATU, acting through the Infrastructure and Public Spaces Programs Support Unit, will sign specific coordination agreements with each beneficiary municipio for use of the program resources. These agreements include plans for maintenance of the works.⁴⁵
- 3.11 **Special contractual conditions precedent to the first disbursement of the loan proceeds:** (i) an agency agreement has been entered into by the borrower, SEDATU, and Nacional Financiera S.N.C. as the borrower's financial agent; and (ii) the program [Operations Manual](#) have been approved

⁴³ INSUS is an agency of the Federal Executive Branch with separate legal status, belonging to the social sector coordinated by SEDATU.

⁴⁴ In Mexico, each of the 32 member states of the Federal State is called a federative entity.

⁴⁵ [Model Specific Coordination Agreement for the 2020 Urban Improvement Program](#), comprehensive neighborhood improvement component. SEDATU, 2020.

on the terms previously agreed upon with the Bank. Signing an agency agreement is required because Mexico designated NAFIN as its financial agent for management of the loan proceeds with the Bank, including the processing of disbursement requests, delivery of financial reports, etc. Approving the program Operations Manual is required because it will describe the arrangements and mechanisms for the implementation of activities, including internal coordination within SEDATU and with other entities, as well as the criteria and technical specifications for investments under the Bank's policies. The Operations Manual will include the arrangements to address the findings of the ICAP assessment and the program's environmental requirements.

- 3.12 **Fiduciary agreements and requirements.** Annex III contains the fiduciary arrangements for execution with respect to disbursement modalities, financial administration and procurement systems, and auditing. Disbursements will be made under the reimbursement of expenditures modality; the advance of funds modality may be used on an exceptional basis. Funds will be disbursed to NAFIN as the financial agent. Works, goods, and consulting services will be procured in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-15). The supervision method will be ex post, except in cases where ex ante supervision is justified.
- 3.13 **Retroactive financing.** The Bank may retroactively finance up to US\$60 million (20% of the proposed loan amount), as a charge against the loan proceeds, for eligible expenditures incurred by the borrower prior to the loan approval date for Component 1 activities,⁴⁶ provided that requirements substantially similar to those established in the Loan Contract have been met. Such expenditures must have been incurred on or after the program profile approval date (3 September 2020), but in no case will they include expenditures incurred more than 18 months prior to the date of loan approval by the Bank.
- 3.14 **Audits.** The executing agency will deliver the program's audited financial statements within 180 calendar days after the close of each fiscal year, in accordance with the terms of reference agreed upon with the Civil Service Department (SFP). The last such financial statements will be delivered 180 calendar days after the date of the last disbursement.

B. Summary of arrangements for monitoring results

- 3.15 **Monitoring and supervision system.** The outcome and output indicators included in the Results Matrix for each component and reflected in the progress monitoring report (PMR) will be used to measure program progress and evaluate fulfillment of its objectives. The executing agency will be responsible for maintaining data collection and monitoring systems. The annual work plan ([required link 1](#)) will include: (i) an estimated budget; (ii) an updated procurement plan ([required link 4](#)); (iii) the planned indicators for the Results Matrix; (iv) the planned activities; and (v) an execution timetable. The executing agency will deliver six-monthly progress reports within 60 days after the close of each six-month period, including a review of compliance with the environmental and social assessment and the environmental and social management plan.

⁴⁶ See "[List of the works subject to retroactive financing](#)" in Mexican pesos. A review is being done to identify the eligible expenditures for which requirements substantially similar to the Bank's have been met, including environmental and social safeguards.

The instruments for program monitoring are described in the monitoring and evaluation plan ([required link 2](#)).

- 3.16 **Supervision by the Bank.** There will be administration missions and monitoring visits for the program. The executing agency will use the progress monitoring report and meet with the Bank annually to assess: (i) progress on the activities identified in the annual work plan ([required link 1](#)); (ii) the extent to which the indicator targets set in the Results Matrix have been met; (iii) the annual work plan for the following year; and (iv) the procurement plan for the following 18 months and potential changes to the budget allocations for each component. The executing agency agrees to maintain a program monitoring and evaluation system for all the components that will facilitate the preparation of reports and data for submission to the Bank. The executing agency will have a specialist responsible for the planning and monitoring of activities.
- 3.17 **Evaluation.** The operation will be evaluated using the Results Matrix and the monitoring and evaluation plan, including preparation of the program completion report (PCR). There will be a midterm and a final evaluation, including technical, administrative, and financial factors, as well as an ex post cost-benefit analysis. The midterm evaluation will be conducted when at least 40% of the loan proceeds have been disbursed, or two years after the entry into force of the Loan Contract, whichever occurs first. The final evaluation will be conducted when at least 90% of the loan proceeds have been disbursed. The objective of the final evaluation will be to verify progress toward meeting the planned targets for each of the expected outcomes, and the generation of outputs for each component. The final evaluation will also include an ex post economic analysis (cost effectiveness) and a “before and after” analysis of the indicators associated with the specific objectives.

IV. ELIGIBILITY CRITERIA

- 4.1 **Eligibility criteria for the CCLIP.** The Bank will contribute to the Mexican government’s objective of reducing regional imbalances and fostering local development through a sector conditional credit line for investment projects (CCLIP). This operational instrument of the Bank will support the Department of Agricultural, Territorial, and Urban Development (SEDATU) in its medium- and long-term strategic mandate to provide access to infrastructure, urban facilities, and services to the country’s urban population, in order to address the gaps associated with the urbanization model of recent decades.
- 4.2 The CCLIP will support SEDATU’s commitment to contribute to the Sustainable Development Goals, in order to make human settlements inclusive, safe, resilient, and sustainable.⁴⁷ The CCLIP meets the eligibility conditions set in the applicable policy (document GN-2246-13), since its objective is among the priorities identified in the IDB Group Country Strategy with Mexico (2019-2024) (document GN-2982), contributing to more balanced and sustainable territorial development through better prioritization of investments and organized use of land, with programmatic and policy actions on urban development and land use. Therefore, with the CCLIP, Mexico seeks to address the gaps described for each of the country’s regions.

⁴⁷ Objective 11. In 2015, Mexico signed the 2030 Agenda, which includes the Sustainable Development Goals.

- 4.3 The total amount of the CCLIP will be US\$1 billion. The period to use the resources will be 10 years, executed through individual operations.
- 4.4 **Eligibility of the first operation under the CCLIP.** The first operation meets the eligibility criteria of the CCLIP as defined in policy document GN-2246-13: (i) SEDATU has executed Bank programs, and its institutional capacity has been assessed using a simplified approach via the Institutional Capacity Assessment Platform (ICAP) to identify areas for improvement and potential risks (see paragraph 3.3); (ii) the objective of the first program contributes to achievement of the objective of the CCLIP (see paragraph 1.35); and (iii) the loan proposal for the first operation includes actions that address the areas for improvement identified in the ICAP assessment (see paragraph 1.45).

Development Effectiveness Matrix		
Summary ME-O0010 & ME-L1312		
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Value of investments in resilient and/or low-carbon infrastructure (\$)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2982	“contribuir al acceso equitativo y sostenible a servicios sociales” y “contribuir a un desarrollo territorial más equilibrado y sustentable”,
Country Program Results Matrix		The intervention is not included in the 2021 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		9.4
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.4
4. Ex ante Economic Analysis		7.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		0.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		0.0
5. Monitoring and Evaluation		8.3
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		4.3
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		B
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, External Control, Internal Audit. Procurement: Information System.
Non-Fiduciary	Yes	Monitoring and Evaluation 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		

The general objective of the CCLIP is: contribute to the reduction of urban and social lag by improving access to goods and services for the population of eligible municipalities living in areas with medium, high and very high degrees of urban and social lag. The specific objectives of the first program under the CCLIP are: (i) improve access to public spaces and urban facilities; (ii) contribute to granting of legal security regarding land tenure; and (iii) improve planning tools at the municipal, metropolitan, and state levels.

The project presents a complete diagnosis, with a detailed description of the evolution of the country's urbanization model, the lags in terms of urban infrastructure, equipment, and public spaces, land tenure and urban planning tools. The results matrix includes indicators measuring achievement of the general and specific objectives, the indicators are SMART and have means of verification. Some of the indicators do not have established targets.

The economic analysis of the project was carried out through a cost-efficiency analysis (CE), focusing on component 1. The unit costs of the works included in this component were compared with the costs of similar works of the Urban Improvement Program (PMU) and Federal spending in past years (2018-2020), and with similar works financed by the Bank in Argentina, Brazil, and Peru. The analysis concludes that the average unit costs of this operation are in adequate ranges compared to the average unit costs of the SEDATU 2019 and 2020 portfolio and are below the reference costs of other urban improvement projects in the region.

The project includes a monitoring and evaluation plan that is in line with the Bank's standards. The effectiveness of the proposed intervention will be measured using a before and after methodology and ex-post efficiency will be assessed using a cost-effectiveness analysis.

RESULTS MATRIX

Program objectives:	The specific objectives of the first program under the CCLIP are: (i) to improve access to public spaces and urban facilities; (ii) to contribute to legal certainty as to land tenure; and (iii) to improve planning tools at the municipal, metropolitan, and state levels. Achieving these objectives will contribute to the general objective of the CCLIP, which is to contribute to narrowing urban and social gaps by improving access to goods and services for people living in areas with medium, high, and very high urban and social gaps in eligible municipios.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Expected year for achievement	Target	Means of verification	Comments ¹
General development objective: The objective of the program is to improve access to urban infrastructure and facilities for people living in areas with medium, high, and very high urban and social gaps in the cities that meet the eligibility criteria for the Urban Improvement Program (PMU).							
Indicator 1 Percentage of the population (people) living in the targeted areas with narrower urban and social gaps.	Percentage	To be determined	2020	To be determined	To be determined	Urban and Social Gap Index updated with data from the 2025 Intercensal Survey.	Once data from the 2020 Census is available, the baseline will be estimated and the target set. See the indicator results matrix of the PMU for the calculation method.

¹ The [monitoring and evaluation plan](#) includes details on specific objectives and outputs.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	End of project	Means of verification	Comments
Specific development objective 1. Improve access to public spaces and urban facilities.										
Indicator 1 Residents of eligible municipios with access to public spaces and urban facilities (built, expanded, renovated, or outfitted)	People	0	2020	-	-	-	-	To be determined	Report from the Infrastructure and Public Spaces Programs Support Unit based on municipal population estimates, updated with data from available population estimates	
Specific development objective 2. Contribute to legal certainty as to land tenure.										
Indicator 1 Deeds recorded in the Public Registry of Property and Commerce as a percentage of the total number of release agreements delivered under the program in eligible municipios	Percentage	0	2020	-	-	-	-	65%	Records from the Legal Affairs Division of the National Institute for Sustainable Land (INSUS)	
Specific development objective 3. Improve planning tools at the municipal, metropolitan, and state levels.										
Indicator 1 Percentage of municipal urban development plans and programs supported by the program published in Mexico's Diario Oficial or other official gazette, with respect to those supported during the previous fiscal year	Percentage	0	2020	-	-	-	-	75%	List of publications of planning instruments in the official gazettes of the beneficiary municipios, states, and metropolitan areas retained by the Urban Development, Land, and Housing Division	
Percentage of municipal, metropolitan, and state projects that include gender equality and diversity criteria	Percentage	0	2020	-	-	-	-	75%	Fiscal year closing forms retained by the Urban Development, Land, and Housing Division	

OUTPUTS

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	End of project	Means of verification	Comments
Component 1: Comprehensive neighborhood improvement										
Education and cultural works built, expanded, outfitted, or renovated	Works (number)	0	2020	24	7	7	6	44	List of projects with physical/financial progress or list of projects with a certificate of delivery/acceptance retained by the Infrastructure and Public Spaces Programs Support Unit Form MIB-01 of the PMU, to tracking climate finance	Contributes to Corporate Results Framework indicator: "Value of investments in resilient and/or low-carbon infrastructure"
Health care and social assistance works built, expanded, outfitted, or renovated	Works (number)	0	2020	13	4	4	4	25	Ibid.	Ibid.
Commerce and supply works built, expanded, outfitted, or renovated	Works (number)	0	2020	3	2	1	1	7	Ibid.	Ibid.
Mobility and connectivity works built or renovated	Works (number)	0	2020	11	4	4	3	22	Ibid.	Ibid.
Recreation and sports works built, expanded, outfitted, or renovated	Works (number)	0	2020	96	23	23	19	161	Ibid.	Ibid.
Public administration and urban services works built, expanded, outfitted, or renovated	Works (number)	0	2020	4	1	1	2	8	Ibid.	Ibid.

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	End of project	Means of verification	Comments
Component 2: Regularization and legal certainty										
Release agreements delivered for the regularization of lots for residential use in eligible municipios	Agreements (number)	0	2020	673	673	673	673	2,692	Records from the Regularization Division of INSUS	
Release agreements delivered for the regularization of lots with public services	Agreements (number)	0	2020	26	26	26	26	104	Ibid.	
Release agreements delivered for the regularization of lots for residential use with specific expenses	Agreements (number)	0	2020	534	534	534	534	2,136	Ibid.	
Component 3: Territorial and urban planning at the subnational level										
Projects prepared or updated for the state land-use management and urban development program	Projects (number)	0	2020	2	1	1	0	4	Fiscal year closing forms retained by the Urban Development, Land, and Housing Division	
Projects prepared or updated for the metropolitan program	Projects (number)	0	2020	2	1	1	0	4	Ibid.	
Projects prepared or updated for municipal urban development plans and programs	Projects (number)	0	2020	20	13	10	10	53	Ibid.	

Country: Mexico

Division: CSD/HUD

Operation number: ME-L1312

Year: 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Department of Agricultural, Territorial, and Urban Development (SEDATU)

Operation Name: Urban Improvement Program

I. Fiduciary Context of the Executing Agency

1. Use of country systems in the operation. (Any system or subsystem subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation thereof.)

<input checked="" type="checkbox"/> Budget	<input type="checkbox"/> Reports	<input checked="" type="checkbox"/> Information system	<input type="checkbox"/> Partial NCB
<input checked="" type="checkbox"/> Treasury	<input checked="" type="checkbox"/> Internal audit	<input type="checkbox"/> Shopping	<input type="checkbox"/> Other
<input checked="" type="checkbox"/> Accounting	<input checked="" type="checkbox"/> External control	<input type="checkbox"/> Individual consultants	<input type="checkbox"/> Other

2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Cofinancing	Not applicable
<input checked="" type="checkbox"/>	Coexecuting agencies/ Subexecuting agencies	National Institute for Sustainable Land (INSUS)
<input checked="" type="checkbox"/>	Fiduciary execution specifics	The execution mechanism includes the use of a payment trust with specific accounts for the transactions related to this operation, for approximately 90% of the budget. The remaining payments will be made through accounts payable certified by the Federal Treasury.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	The August 2020 fiduciary capacity assessment of the executing agency using the Institutional Capacity Assessment Platform (ICAP) found a medium-low fiduciary risk due to potential delay in procurement execution because of the executing agency's unfamiliarity with the Bank's procurement policies. However, this risk will be mitigated through technical assistance for SEDATU, training on the Bank's procurement policies for the executing agency, and support from the financial agent.
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4. Fiduciary risks and risk response

Area(s)	Risk	Risk level	Risk response
Procurement	Delay in procurement execution because of the executing agency's unfamiliarity with the Bank's procurement policies.	Medium-low	Training to the executing agency and support through the financial agent. The Bank and the executing agency also agreed to contract technical assistance for fiduciary matters.

5. The procurement of works and goods and contracting of consulting services will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), and as jointly agreed between the Mexico's Civil Service Department (SFP) and the Bank, reflected in the guidelines and provisions available on the [civil service](#) website.

6. Exceptions to policies and guidelines: No exceptions to policies and guidelines are anticipated.

II. Considerations for the Special Provisions of the Loan Contract

Special contractual conditions precedent to the first disbursement of the financing: No special conditions of a fiduciary nature.

Exchange rate: The exchange rate used for rendering of accounts will be the one published in the Official Gazette of Mexico on the effective date on which the executing agency makes the respective payments or transfers (Article 4.01(b)(ii) of the General Conditions of the Loan Contract).

Audited financial reports on the program: The executing agency will deliver the program's audited financial statements within 180 calendar days after the close of each fiscal year, in accordance with the terms of reference agreed upon with the Civil Service Department (SFP). The last such financial statements will be delivered 180 calendar days after the date of the last disbursement. The fiscal year of the program runs from 1 January to 31 December.

III. Agreements and Requirements for Procurement Execution

<input checked="" type="checkbox"/>	Bidding documents	The procurement of works, goods, and nonconsulting services conducted in accordance with the procurement policies (documents GN-2349-15) and subject to international competitive bidding (ICB) will be executed using the Bank's standard bidding documents or those agreed upon by the SFP and the Bank for a specific procurement process. The selection and contracting of consulting services will be conducted in accordance with the policies for the selection of consultants (document GN-2350-15), using the standard request for proposals issued by the Bank or agreed upon by the SFP and the Bank for a specific selection process. The program sector specialist is responsible for reviewing the technical specifications and the terms of reference for procurements during the preparation of selection processes. This technical review may be conducted on an ex ante basis and is independent from the procurement's review method.						
<input checked="" type="checkbox"/>	Recurrent expenditures	The recurrent expenditures necessary to implement the operation that are approved by the Project Team Leader and financed will be executed following the executing agency's administrative procedures. These procedures will be reviewed and accepted by the Bank, provided that they do not violate the principles of economy, efficiency, and competition. The planned recurrent expenditures are for per diem, transportation, and general expenses.						
<input checked="" type="checkbox"/>	Retroactive financing	The Bank may retroactively finance up to US\$60 million (20% of the proposed loan amount), as a charge against the loan proceeds, for eligible expenditures incurred by the borrower prior to the loan approval date for program Component 1 activities, provided that requirements substantially similar to those established in the Loan Contract have been met. Such expenditures must have been incurred on or after the program profile approval date (3 September 2020), but in no case will they include expenditures incurred more than 18 months prior to the date of loan approval by the Bank.						
<input checked="" type="checkbox"/>	Procurement supervision	<p>The supervision method will be ex post, except where ex ante supervision is warranted. Ex post reviews will be performed annually in accordance with the program supervision plan, subject to changes during execution. Ex post review reports will include at least one physical inspection visit, selected from procurement processes subject to ex post review (10%). The inspection verifies the existence of the procurement, leaving verification of quality and compliance with specifications to the sector specialist. The thresholds for ex post review are as follows (US\$000s):</p> <table border="1"> <thead> <tr> <th>Works</th><th>Goods and services</th><th>Consulting services</th></tr> </thead> <tbody> <tr> <td>NCB < 15,000; Shopping < 500</td><td>NCB < 3,000; Shopping < 100</td><td>Firms < 500; Individuals < 100</td></tr> </tbody> </table>	Works	Goods and services	Consulting services	NCB < 15,000; Shopping < 500	NCB < 3,000; Shopping < 100	Firms < 500; Individuals < 100
Works	Goods and services	Consulting services						
NCB < 15,000; Shopping < 500	NCB < 3,000; Shopping < 100	Firms < 500; Individuals < 100						
<input checked="" type="checkbox"/>	Records and files	The executing agency will retain the original basic documentation for verification of expenditures to the Bank and the procurement records.						

Main procurement processes:

Description of procurement	Selection method	New procedures/ Tools	Estimated date	Estimated amount (US\$000)
Works	To be confirmed	To be confirmed	To be confirmed	To be confirmed
Plazas, markets, parks, libraries, sports facilities, mobility works.	NCB	To be confirmed	April 2022	266,000
Firms	To be confirmed	To be confirmed	To be confirmed	To be confirmed
Detailed designs for works	QCBS	To be confirmed	April 2022	30,000
Individual consultants	To be confirmed	To be confirmed	To be confirmed	To be confirmed

See the [procurement plan](#).

IV. Financial Management Agreement and Requirements

<input checked="" type="checkbox"/>	Programming and budget	The disbursements for this operation will be regarded as foreign credit and count toward the budget cap allocated to SEDATU.
<input checked="" type="checkbox"/>	Treasury and disbursement management	<ul style="list-style-type: none"> Disbursements will be made under the reimbursement of expenditures modality; the advance of funds modality may be used on an exceptional basis, in which case the disbursement mechanism will be e-disbursement against disbursement requests. Given the emergency and in accordance with instructions from the Bank's Legal Department, disbursement requests may also be scanned and sent electronically. The supporting documentation for these disbursements will be those eligible transactions that are actually paid to the beneficiaries or suppliers through the trust fund. Percentage for rendering of accounts: 80% of advances pending justification. Program resource flow: Funds will be disbursed to NAFIN as the financial agent of the federal government.
<input checked="" type="checkbox"/>	Accounting, information systems, and reporting	Specific accounting standards: Government Accounting Act, Government Accounting System, partially based on the International Financial Reporting Standards (IFRS). Accounting method and currency: Cash basis. Reports will be submitted in local currency and U.S. dollars.

☒	External control: external financial audit and project reports	External audit: The borrower and the executing agency will select and engage the services of an eligible auditor acceptable to the Bank, in accordance with the terms of reference previously agreed upon with the SFP.
☒	Financial supervision	Ex post supervision: Financial supervision will be conducted by means of visits to SEDATU, working meetings, and reviews of reports and audited financial reports. Support will also be available from the financial agent, which has extensive experience managing operations with the Bank.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/21

Mexico. Conditional Credit Line for Investment Projects (CCLIP)
to Narrow Urban and Social Gaps
ME-O0010

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, to enter into such agreement or agreements as may be necessary with the United Mexican States, to establish the Conditional Credit Line for Investment Projects (CCLIP) to Narrow Urban and Social Gaps (ME-O0010) (the "Line") for an amount of up to US\$1,000,000,000 chargeable to the resources of the Ordinary Capital of the Bank.

2. To establish that the resources allocated to the Line shall be used to finance individual operations under the Line, in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects approved by Resolution DE-58/03, as amended by Resolutions DE-10/07, DE-164/07, DE-86/16 and DE-98/19; (b) the provisions set forth in documents GN-2564-3 and GN-2246-13; and (c) the terms and conditions included in the proposal for the corresponding individual operation.

(Adopted on _____ 2021)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Mexico. Loan ___/OC-ME to the United Mexican States
Urban Improvement Program. First Individual Operation
under the Conditional Credit Line for
Investment Projects (CCLIP) to Narrow Urban and Social Gaps
ME-O0010

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 a financing aimed at cooperating in the execution of the Urban Improvement Program, which constitutes the first individual operation under the Conditional Credit Line for Investment Projects (CCLIP) to Narrow Urban and Social Gaps (ME-O0010), approved by Resolution DE-___/21 dated _____, 2021. Such financing will be in the amount of up to US\$300,000,000, 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 _____ 2021)