INTEGRATED SUSTAINABLE URBAN DEVELOPMENT DUIS II

ME-T1183

CERTIFICATION

I hereby certify that this operation was approved for financing under the Spanish Framework General Fund (FGE) through a communication via email dated on November 11, 2011 and signed by Wenceslao Rodriguez Gavela, Subdirector of Multilateral Financial Institutions Department from the Ministry of Economy of Spain. Also, I certify that resources from the Spanish Framework General Fund (FGE) are available for up to €487,643 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of twelve (12) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in Euros. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

[Signature]
Marguerite S. Berger
Chief
Grants and Cofinancing Management Unit

[Signature]
11/17/2011
Date

APPROVAL

Approved:

[Signature]
Kurt Focke
Division Chief
Capital Markets and Financial Institutions Division
ICF/CMF

[Signature]
NOV 21 2011
Date
I. General Information

KCP Title:
Integrated Sustainable Urban Development DUIS II

OPUS Number: ME-T1183
Date of Proposal: 5/4/2011
Linked to project:

Team Leader / Unit:
GUZMAN ZAPATER, RAMON - ICF/CMF

Peer Reviewer 1:
SYLVIA GABRIELA ANDRADE, VPC/VPC

Peer Reviewer 2:
JOSE ERNESTO LOPEZ CORDOBA, CID/CME

Joint Proposal:

Proposed amount, without counterpart in USD equivalent (enter whole number only): USD 675,312.00
Must match total of budget table on section VI, and of OPUS

Proposed amount including counterpart (if applicable) in USD equivalent: USD 1,000,312

Proposed Fund: FONDO GENERAL DE LA COOPERACION ESPANOLA (FGCE)

Unit of Technical Responsibility: ICF/CMF
Unit of Disbursement Responsibility: ICF

Execution: Letters of Request available (or equivalent)
IDB YES
Doc# (IDBdocs): 36311212 y 36311210

Non-objection available:
YES
Doc# (IDBdocs):

Execution period: 24 months Disbursement period: 24 months Required Start Date: 9/1/2011

Executing Agency: IDB

Executing Agency description and capacity: IDB will execute this TC answering to the petition of SHF, building on the experience in the first phase of this TC.

Country of Origin of Executing Agency:

Contact in the Executing Agency:

E-mail address:

Beneficiary Countries:
MEXICO

Beneficiary entity: SOCIEDAD HIPOTECARIA FEDERAL SNC (SHF)

Sector: MULTISECTOR CREDIT & PREINVESTMENT
II. KCP Type

Origination
Originated in client: KCP is the result of clients’ demands.
The client may require to address a current public discussion, an advice to draft a law or a regulation, support for policy analysis and formulation, a capacity improvement for the execution of a recently approved program, an analysis of a public policy or private sector problem, or generate consensus around a specific issue.

Scope
Short term purpose:
Demand for this KCP has an immediate, short-term scope, possibly drawing from knowledge and experience that is readily available.

III. Alignment of the KCP proposal with IDB’s Institutional Priorities (GCI9).

3. Institutions for Growth and Social Welfare
Financial Services

3.1 Explain how the knowledge produced with this KCP will be used (policy advice, institutional strengthening, input for programming and strategy, pipeline development, input for other KCPs):

This KCP aims at perfecting the sustainable urban development methodology previously established, and expanding its use throughout the institutional framework involved in land planning activities in Mexico. Hence, the knowledge produced will foster institutional strengthening of the Mexican Federation, States and Municipalities, in the field of urban, and more broadly, land development. The KCP may also result in DJUS projects where IADB financing might be involved, through its financing of SHF activities in the field of housing for lower income households (pipeline development).

IV. OBJECTIVES, EXPECTED RESULTS AND ACTIVITIES (Maximum 4 pages)

4.1 Describe the challenge that this KCP addresses (e.g. policy, institutional, technical):

The large housing projects in recent years have been undertaken without paying sufficient attention to appropriate sustainability criteria from a social, economic and environmental point of view. This has triggered expansive and segregating processes in major cities of Mexico, with the risk of perpetuating a broken territorial pattern. INFONAVIT (the public agency that finances housing for formally employed workers in Mexico and is the largest mortgage producer in the country) estimated recently that as many as 25% of the homes they had financed remained vacant. The reasons for this failure are several, but they all require poor planning to materialize. The impact of poor planning in the housing mortgage market is however not only direct; unsuccessful developments, be them private sector or public sector promoted, act as a deterrent for the commercial banks to develop strong mortgage departments, a factor that contributes more broadly to the relatively small contribution of the Mexican financial sector to growth in the economy.

Given the need to strengthen the link between socioeconomic development policies and their physical space dimension through the management of urban development, of the quality and sustainability of cities, the Mexican authorities formed the Group on the Promotion and Evaluation of Sustainable Urban Developments (GPEDUIS, informal committee of all public actors involved in urban policy). Its essential purpose is to integrate the strategies of the Federal Government in a policy for the generation of comprehensive urban development projects with sustainability criteria, and to consolidate and coordinate support measures to facilitate the low-income population to access housing finance.

The task of the Group is essentially an administrative process of quality certification. Urban development projects designed according to a comprehensive methodology (the so called RUBA methodology, integrated by 11 determinants, 23 prerequisites and 48 indicators with fixed weights to evaluate projects) are certified by the GPEDUIS and receive the qualification as DJUS, thereby becoming eligible for the basket of incentives managed by each of the departments involved in the GPEDUIS. This acts as the positive incentive to foster responsible planning. For further info please see ME-T1127, the direct precedent of this TC.

The aim of the TC from the perspective of the Bank is to support the coordination of public policy and federal agencies in their efforts to finance the implementation of DJUS. Specifically, the TC helps GPEDUIS through the technical and social evaluation of DJUS proposals, tasks for which the Group has limited means.
4.2 Describe lessons learned from previous similar KCP:

1.- In 2008 the Spanish Fund (FGE) authorized a nonrefundable contribution of 455,175 Euros for the realization of the consulting "DUIS SHF. Comprehensive Assessment of Sustainable Urban Developments" (ME-T1127). This work aimed to support the Federal Mortgage Society (Sociedad Hipotecaria Federal SHF), as part of the GPEDUIS, to undertake the task of promotion and evaluation of the first integrated sustainable urban developments (DUIS).

2.- FGE resources have been used to the satisfaction of its mission so far. In fact the TC has contributed significantly to the governments actions in this field: it consolidated a systematic methodology of evaluation, the so called RUBA (acronym for Regional, Urban, Neighborhood, Architectural planning criteria), composed of 11 determinants, 23 prerequisites and 48 indicators, and built an automated assessment process using the Internet, which operates as a single window accessing multiple administrations and provides the sponsor of each project the process of obtaining certification.

3.- From December 2008 to date three consulting firms of specialists were hired, selected from a list of 20. To date, there are four approved DUIS (Valle de San Pedro, El Rehilete, Puerta de Anza, El Cielo) covering 7,388 hectares and involving 229,000 housing units for a potential beneficiary population of 890,000 inhabitants. 13 projects are in pre-assessment or evaluation, potentially further delivering 535,000 houses covering 2,150,000 beneficiaries, in an area of 14,600 hectares, with an investment of approximately $ 118,800 million pesos.

4.- Several lessons learned from this first phase emerge: a) the desirability of sustaining the effort to institutionalize the system, in order to ensure its permanence in the long run and to standardize the basket of incentives of the Federation to be channeled to projects once they have been certified as DUIS. This institutionalization will be done through the Interministerial Commission on Housing, a body envisaged in the Housing Act, which will be chaired by the President and is composed of the same institutions that participate in the GPEDUIS b) some further consultancy work is needed for which the technical and financial support from the IDB is requested. This is the subject of this consultancy and the works are described below.

Especially three needs have been identified: (i) It is important to evaluate from a Technical and financial point of view a new type of DUIS, the redensification and/or urban regeneration DUIS projects (development projects that seek to correct the impacts of preexisting developments), establishing a Baseline and Diagnosis Methodology for this type of DUIS, and defining Eligibility, building an automated Eligibility process and designing the best suited Basket of incentives for the redensification projects (ii) Another critical task for the consolidation of the DUIS practice would be the integration of the DUIS criteria in the Urban Development Plans of the Municipalities and states with the highest participation in housing development in Mexico. Adapting those plans with appropriate criteria would help define the use of land (housing, mixed, infrastructure, services) and contribute to sustainable urban growth. Of course land planning authority in the state and municipal level is vested in local governments, however, the lack of financial and technical resources conduce that in most states and even more in the cities, urban development plans are not updated, or they do not even exist. (iii) Finally, each DUIS should take into account more explicitly the productive activities prevalent in a city or region (their vocation). DUIS could then become an engine not only for sustainable housing, but also for the development of services, infrastructure and recreation for the benefit of the community that resides in the area, contributing to generate competitiveness and employment sources. Studies to identify the vocation of each DUIS would look into natural resources, population, productive, economic, environmental and normalization parameters, and integrate them in the RUBA Methodology. Once identified, the Vocation would determine the public-private equipment (transport, education, industry, public administration etc) to be developed consistent with the DUIS vocation thereby tailoring the infrastructure to the demands of the dominant activities in the city (services, industry etc).

4.3 State the KCP objectives:

The broad goal of the consultancy is to support GPEDUIS and SHF at this stage of consolidation and implementation of the planning methodology. Specific objectives are a) To perfect the methodology developed, adapting it to cover redensification projects b) To introduce the city's economic vocation among the planning criteria, and c) to transpose the criteria of regional and urban planning at the municipal and regional levels, with full powers in the matter.
4.4 State the KCP expected results:

1. The perfection of the methodology, through the establishment of a new subtype of DUIS (redensification), and
2. also through the introduction of the economic vocation criteria.
3. The adaptation of the urban and state planning of Municipalities and States to the regional and urban criteria of the methodology developed.

4.5 Provide a description of the main outputs and related activities expected to be carried out:

The outputs of the TC would be a) a Technical Data Sheet modifying the RUBA methodology to consider redensification/urban regeneration Projects b) One Technical Datasheet modifying the RUBA Methodology to consider the economic vocation among the planning criteria and c) four reports of adaptation, of a State Development Plan, Municipal Management Plan, and partial plan of development.

The activities of the consultan/s will consist of reviewing the technical and social suitability of the proposed redensification DUIS, to develop the methodology. They will also be in charge of the process of integrating the methodology developed so far in the preselected plans and the incorporation of the concept of economic vocation through an evaluation of the four existing certified DUIS.

4.6 Identify the main audience or expected users of knowledge generated or disseminated by this KCP

Urban development agencies and experts, as well as government actors at all levels, federal, regional and local, involved in land development and/or housing. Banks involved in construction or housing.

4.7 Additional technical information

If necessary, in an appendix please provide further technical details that you consider relevant to evaluate the technical quality of this KCP.

Presentación “Desarrollos Urbanos Integrales Sustentables y Apoyos del BID”

Sustainable Urban Developments

Informe de Evaluación Final Integrada Centro Urbano de Morelos

Asistencia Financiera y Tecnica del BID para la Puesta en Marcha de los Desarrollos Urbanos Integrales Sustentables (DUIS)

ESG Toolkit – Filtros de Salvaguardas

V. KCPs RESULTS FRAMEWORK. Main Outcomes and Outputs.

5.1 Results Matrix:
# Results Matrix

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Unit</th>
<th>Baseline Value</th>
<th>Year 1 Planned</th>
<th>Year 1 Actual</th>
<th>Year 2 Planned</th>
<th>Year 2 Actual</th>
<th>Expected Completion Date</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of repopulation and urban regeneration projects qualified as DUAS</td>
<td>#</td>
<td>0</td>
<td>2011</td>
<td>4</td>
<td>2</td>
<td></td>
<td>31/12/2012</td>
<td>INFORMES DE CONSULTORIA Y SOCIEDAD HIPOTECAVIA FEDERAL</td>
</tr>
<tr>
<td>Output: Technical Datasheets modifying the RUBA Methodology to consider repopulation and urban regeneration projects.</td>
<td>#</td>
<td>0</td>
<td>2011</td>
<td>0</td>
<td>1</td>
<td></td>
<td>31/12/2012</td>
<td>INFORMES DE CONSULTORIA Y SOCIEDAD HIPOTECAVIA FEDERAL</td>
</tr>
<tr>
<td>Outcome</td>
<td>#</td>
<td>0</td>
<td>2011</td>
<td>4</td>
<td>0</td>
<td></td>
<td>31/12/2012</td>
<td>INFORMES DE CONSULTORIA Y SOCIEDAD HIPOTECAVIA FEDERAL</td>
</tr>
<tr>
<td>Number of urban projects qualified as DUAS with the new economic vocation criteria.</td>
<td>#</td>
<td>0</td>
<td>2011</td>
<td>0</td>
<td>1</td>
<td></td>
<td>31/12/2012</td>
<td>INFORMES DE CONSULTORIA Y SOCIEDAD HIPOTECAVIA FEDERAL</td>
</tr>
<tr>
<td>Output: Technical Datasheets modifying the RUBA Methodology to consider the economic vocation among the planning criteria.</td>
<td>#</td>
<td>0</td>
<td>2011</td>
<td>4</td>
<td>0</td>
<td></td>
<td>31/12/2011</td>
<td>INFORMES DE CONSULTORIA Y SOCIEDAD HIPOTECAVIA FEDERAL</td>
</tr>
<tr>
<td>Outcome: # of municipalities and States that adapt their plans to the regional and urban criteria.</td>
<td>#</td>
<td>0</td>
<td>2011</td>
<td>15</td>
<td>40</td>
<td></td>
<td>31/12/2011</td>
<td>INFORMES DE CONSULTORIA Y SOCIEDAD HIPOTECAVIA FEDERAL</td>
</tr>
<tr>
<td>Output: # of municipalities and States Plans adaptation reports financed</td>
<td>#</td>
<td>0</td>
<td>2011</td>
<td>1</td>
<td>1</td>
<td></td>
<td>31/12/2011</td>
<td>INFORMES DE CONSULTORIA Y SOCIEDAD HIPOTECAVIA FEDERAL</td>
</tr>
</tbody>
</table>

Note: Please note that this outcome and output indicators will be the input for the PMR and will be monitored in the Quarterly Business Review.

## VI. BUDGET (*):

Budget should be presented by outputs or groups of outputs (for example: three publications, three conferences, seminars or workshops; one database; one survey; two training courses), and the relevant activities. Total available funds from counterpart sources should be reported. Use whole numbers only. Costs

<table>
<thead>
<tr>
<th>Project Cost – IDB Financing</th>
<th>Total request</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Counterpart Resources</td>
</tr>
<tr>
<td>Year 1</td>
<td>Year 2</td>
</tr>
<tr>
<td>Consult (consultants only)</td>
<td>Travel</td>
</tr>
<tr>
<td>Other</td>
<td>Other</td>
</tr>
</tbody>
</table>

Page 5
### Urban Development Plans on State or Municipality

- **Cost:** $105,906.00
- **Sub-total:** $365,256.00

### Technical and Financial Evaluation of Redensification and/or Urban Regeneration DUIS Projects

- **Cost:** $185,750.00
- **Sub-total:** $310,056.00

### Redensification Evaluation & Biannual Monitoring Reports

- **Cost:** $73,600.00
- **Sub-total:** $92,000.00

**Sub-total:** $725,000.00

**Total:** $725,000.00

**Monitoring and Evaluation:**

- Approximate value of in-kind counter-part: $325,000.00

(*) More details may be required by donors (e.g., consultant cost per day);

<table>
<thead>
<tr>
<th>Project Type</th>
<th>US$/day</th>
<th>Days</th>
<th>Subtotal</th>
<th>#Projects</th>
<th>Total FGCE US $</th>
<th>Total FGCE Euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Type A</td>
<td>Professional Service: 500.00, Travel Allowance Mexico: 200.00</td>
<td>180</td>
<td>90,000.00</td>
<td>2</td>
<td>208,000.00</td>
<td>150,197</td>
</tr>
<tr>
<td>Project Type B</td>
<td>Technical and Financial Evaluation: Professional Service: 500.00, Travel Allowance Mexico: 200.00</td>
<td>70</td>
<td>35,000.00</td>
<td>8</td>
<td>336,000.00</td>
<td>242,625</td>
</tr>
<tr>
<td>Project Type C</td>
<td>Redensification Evaluation &amp; Biannual Monitoring: Professional Service: 500.00, Travel Allowance Mexico: 200.00</td>
<td>20</td>
<td>10,000.00</td>
<td>5</td>
<td>65,000.00</td>
<td>46,937</td>
</tr>
<tr>
<td>Travels</td>
<td>International: 1,950, #tickets: 34</td>
<td></td>
<td></td>
<td></td>
<td>66,312.00</td>
<td>47,884</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>675,312.00</td>
<td>487,543</td>
</tr>
</tbody>
</table>

6.1 Describe the source and type of counterpart resources

As in-kind counterpart, SHF will contribute with the vocation and equipment studies for the 4 certified studies plus one municipal plan. These studies are estimated in US$325,000 and have been paid by SHF using its own resources. All in all, this contribution in kind amounts to around 33% of the total budget for this project and is a testimony of the importance attached by the Mexican authorities to the DUIS program. Further resources may and will be committed to this venture in the near future, but due to budgetary constraints and the late moment in the year the counterparty has to be limited to 325,000.00 USD.

6.2 Types of Consultants: Firms or individuals and main activities/outputs: The Spanish General Cooperation Fund (FGCE) requires and the recipients accept that at least 50% of the total resources committed from the Fund in this TC are allocated to finance consultancy activities by Spanish firms or nationals. The envisaged breakdown of the resources exceeds that request.

<table>
<thead>
<tr>
<th>Type: Individual or Firm (if available)</th>
<th>Nationality (if available)</th>
<th>Estimated Cost</th>
<th>Main Activities / Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm</td>
<td>Spain</td>
<td>540,249.00</td>
<td>• Elaboration of Urban Development Plans on State or Municipality.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Technical and financial evaluation of redensification or urban regeneration DUIS projects; and biannual monitoring.</td>
</tr>
<tr>
<td>Firm</td>
<td>Mexico</td>
<td>135,063.00</td>
<td>• Elaboration of Partial Urban Developments Plans.</td>
</tr>
</tbody>
</table>

VII. Coordination with other MDBs

7.1 Implementation Risks:

The team is confident with regard to the low level of implementation risk, on account of the previous experience with SHF on this project. Looking further ahead, the more important risk would be the lack of continuity in the DUIS effort by the administration or by the incoming government next year. This scenario is also judged improbable by the team, on account of the soundness of the policy, and the excellent results obtained, which are difficult to politicize in a sense. Moreover, the DUIS concept will de facto become a part of the “Housing Law” procedures through the inter institutional committee that the law envisages (where all the departments & institutions involved in the urban and housing development meet). Actually the rules for its operation are in final analysis to publish them and the first committee session has been now approved by the President, in late 2011.

7.2 Summarized collaboration or coordination with other MDBs and donors (if any): None envisaged today.

VIII. Monitoring and evaluation plan.

Fill-out the KCP's Development Effectiveness Matrix (DEM) using this link to the DEM template. On Section 4.11 Quality Measurements at Completion, fill-out only the portion that corresponds to the KCP type selected. Then save it in MDBDOC5 and record its number immediately after the "equal" sign on the link below:


8.1 Summarize the basic elements of the Monitoring and Evaluation plan, including key activities and associated budget:

This TC will be Bank executed, under the coordination/supervision of ICF/CMF. The key activities are the hiring of the consultants and supervising the quality and timeliness of the deliverables.