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Sent: 08 October 2009 7:32 AM

To: Alvarez Franco, Vanesa

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Subject: RE: Approval of CTF Financing for Mexico: Urban Transport Transformation Project

Dear Vanesa,

Thank you for your e-mail of October 6 regarding the proposed Mexico: Urban Transport Transformation Project. We have provided responses to your questions below:

1. We would appreciate more information about the different components of the Mexican Urban Transport Strategy that the CTF and the WB are supporting with their loans. The relationship between the projects or programs and the budget for each component must be clearer. We need to know if the WB loan is helping to underpin the CTF intervention or vice versa.

The Urban Transport Transformation Project (UTTP) supports Mexico's Federal Support Program for Mass Transit (Programa de Apoyo Federal al Transporte Masivo or PROTRAM). PROTRAM gives grants for up to 50% of the project cost to urban mass transit projects. These projects can be bus-based (Bus Rapid Transit) or rail based (light and heavy metros). The UTTP will provide funds to states and municipalities that participate in PROTRAM. The sub-loans will emphasize the mass transit elements but will also finance complementary works that promote modal share. Occasionally, the UTTP will also support projects that are not part of PROTRAM but which seek to improve public transit efficiency and shift users from inefficient modes to more efficient ones, such as mass transit.

The CTF and World Bank loans complement each other by providing a blended financing package. The allocations of funds from the CTF and IBRD loans are described in the PAD in annexes 5, 9 and 16. Annex 5 will be revised to reflect this table of program component costs:

Program Components	CTF (M)	IBRD (M)	Fonadin/ Protram (M)	State/ Municipalities (M)	Private Sector (M)	TOTAL (M)
1. Capacity Building	\$5	\$5		\$15		\$25
2. Infrastructure (BRT, Light Rail)	\$106	\$140	\$1,015	\$322	\$831	\$2,414
3.a Financing of Buses (hybrids)	\$76	\$48			\$38	\$162
3.b Scrapping of buses	\$13	\$7	\$46			\$66
4. Project Management	\$0	\$0		\$27		\$27
Total	\$200	\$200	\$1,061	\$364	\$869	\$2,694

2. We would like to know more about the degree of involvement of the Inter-American Development Bank in the proposal.

The World Bank worked together with the IADB to support Mexico's preparation of the Investment Plan. The IADB is participating in the financing of the energy sector in the Investment Plan, while the Bank is financing the transport sector.

3. There is a lack of financial details and budget for each loan. Are the WB and the CTF acting alone or maybe their operations will be financially supported by the Mexican Institutions and the private sector? We would like to see that the Government of Mexico is deeply committed to support the CTF project with specific budgetary items for this or related components of the Strategy. The same applies to the private sector.

The Mexican government is committed to transforming urban transport into a low-carbon growth path through PROTRAM. As shown in the table above, the total expected commitment of PROTRAM funds surpasses US\$ 1 billion. The private sector is expected to commit over US\$ 800 million. Currently PROTRAM has a pipeline of potential projects that could also seek IBRD-CTF (i.e. UTTP) funds. Once the UTTP becomes effective, BANOBRAS will start considering applications for funds from states and municipalities for eligible urban transport projects, as explained in Annexes 6 and 16 of the PAD. For this reason there is still no financial detail available for each sub-loan in the project, but criteria and project cycle are described in the project document. The financial and economic assessments presented in the PAD were based on a typical project to be financed.

4. We need to know more about the economic sustainability of the project. We

understand the role of the CTF to finance the incremental costs of the hybrid buses. But we are worried about their replacement and viability in absence of the subsidies. The UTTP includes a significant number of hybrid buses that will contribute to cost reduction over time. As noted in the Project Document (para 141), project design envisages that repayments of sub-loans for hybrid buses are to be re-used for the same purposes -- i.e. financing to replace the 30% of the fleet consisting of vehicles that are no more carbon intensive than the original hybrids that were financed from the IBRD/CTF loans, thereby ensuring replacement and hybrid bus operations for the life of the BRT infrastructure (about 20 years).

5. Finally, carbon credits could be a financial guarantee and a source of revenue. However, they are not included in any budget. We know the Carbon Partnership Facility is not yet operational and so we are surprised to see it considered as a potential financial source under Annex 16. We think it is not possible to assess the offer of an upfront payment of the 25% of the carbon revenues for the time being.

We agree that carbon credits are an additional instrument to support the overall transformational effort. At the time the project document was prepared the Carbon Partnership Facility (CPF) was not operational, and therefore its funding was not included in any budget. That said, the CPF has recently approved the entry of the project into its portfolio and the Bank is currently preparing a \$50 million carbon-finance operation for this project, assuming that the CPF will become operational by December 2009.

Please feel free to contact me if you should require further clarification.

Rohit Khanna
World Bank CTF Coordinator

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