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Subject Re: Antw: Approval of CTF Financing for Mexico: Urban Transport Transformation Project Notes Link

Dear Frank,

Thank you for your comments on Mexico: Urban Transport Transformation Project. Herewith the World Bank's responses. The final Project Appraisal Document will fully address these issues. Please let me know if you have any further questions or comments.

Best regards.

Rohit

Comment 1: The basic concept of introduction of a BRT based efficient urban public transport system is very positive. It can provide save, fast, comfortable and affordable mobility for the urban population with a relative low carbon intensity.

To achieve significant effects the future BRT system has to be large enough to represent the backbone of the public transport system in the respective city. A strong public transport authority has to ensure a harmonised line concept and unified ticketing that is also affordable for the poor population. The same authority has to prevent uncontrolled parallel (mini-) bus transport.

Response: The Government of Mexico and the World Bank agree. In fact, the project design is based on the successful experience with METROBUS in Mexico, where the system (in coordination with the METRO) is expected to be the backbone of the service under a strong transport authority. Annex 6 of the draft Project Appraisal Document (PAD) -- and the appendix to this annex -- pays detailed attention to the institutional issues. Specifically, Annex 6 calls for an institutional analysis as part of the project cycle. Equally important, a city is required to have an updated Transport Plan as a requirement for participation in the program. One element of this plan is the institutional and legal reforms needed for successful project implementation.

Incidentally, METROBUS in Mexico City has just been awarded the Roy Family Award, which Harvard University¹s John F. Kennedy School of Government presents every two years to a public-private partnership that enhances and protects the environment through unique and creative approaches.

Comments 2: A secondary public transport feeder system has to ensure the accessibility of the core BRT-system.

Response: We agree. The typical bus rapid and rail rapid transit in the project design has feeder routes. Current practice in Mexico reflects this. For example, Mexico City and Leon de Guanajuato have feeder routes. Further, Leon's integrated fare has lowered costs for users and has eased the burden of transferring from the feeder to the trunk service.

Comment 3: The replacement of many small bus entrepreneurs by the BRT has to be done in a socially acceptable way. This dimennsion is not sufficiently addressed in the document.

Response: The project has a safeguard framework called the "MASTU", or Environmental and Social Management Framework, that has been prepared pursuant to the World Bank's environmental and social safeguard policies and procedures. Please see Annex 10 for description of Safeguards Issues. The MASTU provides for consultations that should be carried out in each participating city with the general public and with stake-holders directly involved in specific projects; this process involves several stages which are described in detail in the MASTU (e.g. environmental impact assessments, social impact assessments, resettlement plans, etc.). Consequently, affected stake-holders will have opportunities to participate in -- and voice opinions regarding -- project design at the local level. Equally important, Mexican law protects existing operators and the experience of Mexico City and León with their BRTs indicates that the old operators were transformed into the new BRT operators. Where this is not possible, or not possible for all existing operators, the MASTU establishes the need to consider and address all negative impacts caused by the project.

Comment 4: In fast growing cities it is crucial that new settlements are developed along clearly defined axes that can easily be served by public transport. All those issues represent risks and chances that depend to a large part on a strong and dedicated urban authority. The document provides not much inside on how those risks are met. Nevertheless, the ongoing project in Mexico can be a best practice example on how to met the risks and shift it to a chance.

Response: The UTTP requires a city to have a comprehensive plan to be able to participate in the project. This requirement catalyzes a city to think about the transport and land use linkage. Specifically, the PAD says that “given that any major transport decision has a direct impact on land use, air quality

and climate, it is important that municipalities are aware of the long-term nature of these inter-relationships and plan accordingly."

Comment 5: It is not clear from the document with which measures the intended benefits will be realised and how potential risks are avoided. The proposed investment project is rather an investment plan for the urban transport sector than a well defined investment project. The document refers to one GEF financed pilot project which shall be replicated in the coming years in various other cities. For these other cities, except one, no preparatory activities seem to have taken place yet. It is therefore difficult to evaluate this proposal. It seems that some of the assumptions made are rather optimistic in nature and would need to be reviewed. E.g. the high rates of IIR come at a surprise in the field of public transport.

Comment 6: Since the mayority of funds will be needed from 2013 onwards, there is currently no need to hurry to disburse the full CTF amount of 200 million USD. The CTF should be requested to present a more precise document in e.g. 2 years of time before the full amount should be appraised. E.g. the project should be reviewed before the 2nd tranch of 100 million USD should be released in case it willl not be possible to attract enough interest of municipalities in the programme.

Response: The expected benefits of the project are based on a prototype "enhanced" BRT project that is described in detail in Annex 9. Data from the successful experiences in Leon and METROBUS in Mexico City have been used to base many of the assumptions, particularly in terms of investments per kilometer, emission reductions and the like.

On the IRR, please note that the high rates shown are for the economic analysis and this is typical of many transport investments where societal benefits are accounted for. The project analysis results are in fact below ex-post evaluations for other BRTs lines, for example in Bogotá, Colombia, where economic IRRs above 50% have been obtained. The financial rates of return for the private sector implemented components are lower (around 17.5%), which are not atypical for private sector participation in countries such as Mexico.

With regard to the program pipeline, the Bank's assessment is that there is sufficient interest of municipalities to participate in the program, as evidenced in the interest expressed by them, the potential projects, and the Government's commitment of funding. It is estimated that as early as year 1 of the project (2010) two corridors will be under construction and will start operations in 2011. By 2013, another 7-8 BRT corridors are expected to be in operation and construction of 4 more should be starting. In 2014, construction of the remaining 4 corridors should start, so that all 18 intended BRT projects will completed by 2016. Annex 3 of the PAD presents this information. Achieving these goals will be possible because PROTRAM's pipeline includes three BRT projects in the final stages of preparation (Guadalajara, Monterrey, and Ciudad Azteca) and five approaching this stage (Leon de Guanajuato, Chihuahua, Mexicali, Ciudad Azteca II, and Ciudad Juarez). These projects have a total value above one billion dollars. Other projects are now entering the PROTRAM pipeline.

It is proposed that the IBRD and CTF loans (of $200 million each) be committed together as blended financing in the full amount for this entire program, sending a positive signal to interested cities and the financial intermediary (BANOBRAS) to develop the pipeline for funding. From the perspective of BANOBRAS and FONADIN as well as the participating cities, such a financial commitment is essential to incentivize the process of developing and formulating the projects by the municipalities. It is also worth noting that the CTF is leveraging substantial financing from the Government of Mexico for the program -- up to 50% of all costs may be covered through FONADIN.

Comment 7: The provided document for approaval is not provided as per CTF standards. WB has submitted a Standard IBRD Appraisal Document, which covers CTF public investment criteria to some degree, but is not as elaborate on various CTF specific investment criteria. This should not set the benchmark for future investment appraisal documents.

Response: The document is consistent with the understandings in the CTF Trust Fund Committee that the MDBs would use their standard Project Appraisal Documents, supplemented by a CTF-specific annex that clearly shows how the project meets each one of the CTF investment criteria for public sector operations. Annex 16 of the Project Appraisal Document elaborates on how the proposed project meets the CTF criteria. This is the same approach agreed and utilized for the Turkey: Private Sector Renewable Energy and Energy Efficiency Project that was submitted to the TFC in April 2009.

Comment 8: Since the institutional set up of the project is highly complex in nature WB perceives coordination & cooperation between the state and municipality level as a significant risk. It might therefore be worthwile to demand a high degree of committment from the Mexican government to assist in mitigating this risk, e.g. through the nomination of a natinonal coordinator.

Response: The UTTP is institutionally linked to the PROTRAM, which has an office that heads it. This office is in fact a national coordinator for the program. As such, this office makes sure projects comply with Mexican and UTTP standards, including safeguards.

Comment 9: In general we support the comments made by TERI on the project proposal (21 April 2009) and the perceived risks. However, we have the impression that although WB agreed to these comments, they have not been considered sufficiently in the revised document.

Response: The comments received on several occasions from Dr. Sundar have been incorporated in the PAD as it has evolved. Dr. Sundar participated in the Bank's decision meetings and quality enhancement meetings for this project and in his latest intervention expressed agreement with the project design and scope.

We would like to highlight a few specific examples of how the external peer reviewer's comments were incorporated in project design. For instance, TERI raised the issue that leaving an open choice for low carbon technologies might hinder the success of the project.

> *"The project envisages the deployment of low carbon vehicle technologies but appears to leave the choice open to the cities depending upon local conditions. As the maintenance, spares etc of low carbon vehicles could be expensive the advantages in standardization should be explored and care must be taken to ensure that Mexico does not become a museum of different technologies" (TERI).*

Following this advice the project component was modified, and the clean technology category was narrowed to include only hybrid buses (See Annex 4 – Detailed Project Description, and Annex 5 – Project Costs)

As another example, TERI suggested to provide further technical assistance to cities for preliminary project preparation.

> *"The document recognizes that the success of the project would to large extent depend on the state of preparation for the project and the readiness of cities to implement it. While 28 cities appear to be interested, the proposal provides for funding and technical assistance to only four cities at the initial stage. If the intention is to replicate the project in the other cities there ought to be a plan of action to extend assistance to the other cities or train them in the initial stage itself to make them ready for receiving the project at a later date (TERI)".*

The Bank agreed on cities' lack of preparation being a substantial risk for project implementation, and has worked on its mitigation by recently signing a Memorandum of Understanding (MOU) with the Government of Mexico. Through this MoU the World Bank is currently providing technical assistance to the GoM in improving the implementation of the UTTP including (i) assistance to cities in project preparation, (ii) assessment of program development and recommendation of alternatives for improvement, and (iii) support in the preparation of evaluation methodologies. Additionally, Project Component 1, includes now $10 million of technical assistance to further support capacity building and preparation activities at the city level including: (i) preparation, update or completion, of Integral Transport Plans, (ii) support for urban transport institutions responsible for sector coordination; (iii) training and skill development of local government staff and other civil servants in areas relevant to sustainable urban transport.

Furthermore, TERI commented on the need for standardizing baselines and methodologies for measuring outcomes.

> *"Care has to be taken to ensure that the baselines are comprehensively and satisfactorily established and that the methodology for calculating the project outcomes are well-defined. Otherwise there would be the danger of programme evaluation becoming subjective" (TERI).*

As mentioned above, the recently signed MoU between the GoM and the Bank includes a component to help prepare methodologies to measure baseline and actual emissions. Furthermore, as part of the partnership arrangements described on the implementation section of the PAD, the World Bank and the Carbon Partnership Facility (CPF) will support the purchase of emission reductions produced by the project. As part of that operation, the CPF has offered technical assistance to cities for the adoption of tools and methods for the accounting, verification and registration of emission reductions. Additionally, the Project Coordinating Unit (UCP) with the support of SEDESOL has committed to develop baseline guidelines for the results framework, and will offer capacity building workshops (See Annex 3 - Arrangements for results monitoring).

Comment 10: The proposed risk mitigation measure remain rather unclear. E.g. the risk that cities seek funding only for low-carbon bus purchases but not for infrastructure or institutional components should not be countered through more attractive interest rates but rather through insisting on balanced investment plans eligible for CTF financing.

The projects that receive financing from the UTTP are not stand alone projects but part of a comprehensive planning exercise. Consequently, it is expected that cities will request funds for infrastructure-related facilities that enhance modal shift, and the private sector will seek funds for the bus fleets. Furthermore, financing terms for buses are in fact not more attractive than for infrastructure related facilities that enhance modal shifts.