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Response of MDB on the Revised CTF Investment Plan for Mexico

Zhihong,

Attached below are the responses to the comments raised by UK/Germany on the Revised IP for Mexico. The responses were prepared jointly by IFC, IDB, and IBRD.

Federico Qüerio
Climate Investment Funds (CTF, SREP)
Sustainable Energy Department, The World Bank

Responses to comments from the CTF Trust-Fund Committee on the Revised CTF Investment Plan for Mexico

Prepared by the International Finance Corporation (IFC), Inter-American Development Bank (IDB) and the International Bank for Reconstruction and Development (IBRD)
May 29th, 2013

We would like to thank the governments of the United Kingdom and Germany [1] for their written comments and questions. Please find below our responses to their questions.

Questions from the United Kingdom

We note the La Ventosa wind project is complete. We would like to congratulate all those involved in this project.

Much appreciated.

We note that no leverage has been reported for the Urban Transport Transformation Programme, these should have been US$0.9 billion 2010-2012. This is surprising given that 6 of 9 projects are reported as expected to be implemented by end of 2013.

The Urban Transport Transformation Program (UTTP) blends resources from the Clean Technology Fund, the World Bank, Mexico's PROTRAM, state and municipal governments, and the private sector. The World Bank-financed part is 13% of the total project cost and counterpart sources finance 87% of the project cost. PROTRAM has a portfolio of 31 projects, out of which 18 are in pipeline and 13 have been approved. The pipeline includes 16 projects in preparation stage, a request for a guarantee for a BRT project in identification, and a suburban rail project in prefeasibility stage. In addition, there are 13 projects approved. The 13 projects under implementation have a cost of US$1.86 billion of which PROTRAM will finance US$841.6 million, and local and private sector sources will finance the rest (US$1,018.5). In addition, PROTRAM and local sources have finance US$2.08 million in studies for project preparation. According to the M&E indicators for the UTTP, between 2010 and 2013 the project should have leveraged US$910 million in counterpart financing. The project has risen in counterpart funding twice this amount (US$1.86 billion). Hence the indicator is well exceeded thanks to the 13 projects under implementation. One of these projects is the *Ecovia* in Monterrey. By 2013 the M&E indicators said 6 projects should be operational. Of the 13 projects under implementation, one of which is the World Bank-financed project in Monterrey, six will be operational by 2013. This indicator will also be met.

[1] https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CommentFiles/Revised_CTF_Investment_Plan_for_Mexico_comments_Germany.pdf

Questions from Germany

Even though the overall leverage and cofunding totals have not changed much, the planned changes in cofunding from IBRD (- US$600 million) and IDB (- US$300 million) add up to almost one billion US$. According to the revised financing plan (Table 7, page 22), these will be compensated by a US$1.4 billion increase in private co-financing. Given the very significant amounts of these changes, we would appreciate a detailed explanation regarding the underlying rationale and assumptions.

In terms of **co-financing from IDB,** the majority of the decrease can be explained by the IBRD-led transport project, where finally the IDB did not participate (original estimation: US$150 million of IDB participation). Furthermore, the estimations made in the original Investment Plan in 2009 were very rough (see Table 1 and Table 5 below). The individual proposals for the programs (IDB/ Renewable Energy Part I (Private Sector), IDB/ Renewable Energy Part III (NAFIN RE Finance Facility), IDB/ Energy Efficiency Part I (Commercial Banking Component) and IDB/ Energy Efficiency Part II, *Ecocasa* Program) are naturally much closer to the reality, and the amounts presented in the Revised IP (Table 2) are not different from the proposals to the TFC.

In the case of the **IDB Renewable Energy proposal**, where the biggest differences with the Original IP can be found, there are several explanations: the first of all, the estimations in the Original IP were not accurate (Table 3), including the estimations for the the Government portion in terms of the *Fondo para la Transición Energética*. The IDB team has revised the current amounts of the IDB Public Renewable Energy proposal and the changes have been included in the table below (Table 2 and Table 3). The total project size is approximately US$2,000 million, instead of the estimated US$2,500 million. This is aligned with the estimations included in the Proposal to the TFC, stating an approximate cost of US$2-2.5 million per MW (for a total of 1,000 MW). The decrease in the contribution by the Government (coming from NAFIN) has been compensated by the increase in Private Investment (simply not accurately estimated in the original IP).

In terms of **co-financing from IBRD,** the decrease is originated in the urban transport and energy efficiency projects. For the **Urban Transport Transformation Program,** the drop in World Bank financing in Urban Transport is apparent and has not affected the achievement of results of this project. First, as explained in the World Bank Board-approved PAD (pages 3-4 and 43-44), the World Bank had in parallel to the UTTP a Development Policy Loan named Green Growth DPL (P115608) for US$1.5 billion. Half of that US$1.5 billion was for policy actions Mexico undertook in urban transport, such as the creation of the National Infrastructure Fund and the National Mass Transit Support Program. Second, the drop in actual lending for projects to US$150 million by the World Bank has been more than compensated by counterpart funding. According to the M&E indicators for the UTTP, between 2010 and 2013 the project should have leveraged US$910 million in counterpart financing. The project has risen in counterpart funding twice this amount (US$1.86 billion). Thanks to this, the UTTP is on target to achieve its expected outcomes.

In the case of the **World Bank Energy Efficiency Project,** the Mexican Government requested the amount of the IBRD loan be reduced to US$250.6 million and the government contribution was increased to US$230 million. Furthermore, the private sector contribution was increased to US$170 million. The total co-financing allocated to this project as a result of these change in the government and private sector contributions was US$664 million, including US$7 million of GEF co-financing. The net change in co-financing was positive from US$600 million to US$664 million, i.e. US$4

million more than the original prospect. The main reason for that increase was the major contribution from the private sector and the Mexican Government.

As a summary, the difference in the total amount of the original IP as compared to the revised IP is now US$102 million.

Table 1: Mexico Original CTF Financing Plan (2009) (US$ million)

MDB/Program	Total CTF funding	Co-finan-cing	Govt.	Private	IBRD	IDB	IFC	Carbon Finance	Others
IBRD/ Transport	200	2,200	750	643	600	150	-	50	7
IBRD/ Efficient Lighting and Appliance Project	50	600	50		400	-	-	150	
IDB/ Renewable Energy	125	2,060	600	850	-	310		-	300
IDB/ Energy Efficiency	75	337	25	150	-	51.5	-	100	10
IFC/ Private Sector Energy Program	50	500	-				135	-	365
Total	**500**	**5,697**	**1,425**	**1,643**	**1,000**	**511.5**	**135**	**300**	**682**

Table 2: Revised projects (2013)

MDB/Program	Total CTF funding	Co-finan-cing	Govt.	Private	IBRD	IDB	IFC	Carbon Finance	Others
IBRD/ Urban Transport Transformation Program	200	1,975	1,093	732	150	-	-	-	-
IBRD/ Efficient Lighting and Appliance Project	50	664	230	176	251	-	-	-	7
IDB/ Renewable Energy Part I (Private Sector)	53.38	600	-	484	-	45	71	-	-
IDB/ Renewable Energy Part III (NAFIN RE Finance Facility)	70.61	**1,913.74**	**244.09**	**1,016**	**-**	**70**	**-**	**-**	**583.66**
IDB/ Energy Efficiency Part I (Commercial Banking Component)	24.4	108	-	44	-	44	20	-	-

IDB/ Energy Efficiency Part II, Ecocasa Program	51.61	249	-	86	-	50	-	-	113
IFC/ Private Sector Wind Development	15.6	173.9	-	64.3	-	22	22	-	65.6
IDB/ Geothermal Exploration Risk Reduction Project	34.4	115.6	12			34.4			69.2
Total	**500**	**5,799**	**1,579**	**2,602**	**401**	**265**	**113**	**0**	**838**

Table 3: Revised amounts (2013)

	MDB	CTF	Co-finance	Govnt	Private	Carbon Finance	Others	Total
IBRD	401	250	2639	1,323	908	0	7	**2,889**
IDB	243.4	234.4	2,986.34	256.09	1,629.99	0	765.86	**3,220.74**
IFC	22	15.6	173.9	0	64.3	0	65.6	**189.5**
Total	**666.4**	**500**	**5,799.24**	**1,579**	**2,602.29**	**0**	**838.46**	**6,299.24**

Table 4: Differences in amounts

	CTF	Co-finance Govt		Carbon Finance	Private	Others	MDB	Total
IBRD	**0.00**	-161	523	-200	265	0	**-599**	**-161**
IDB	**34.40**	589.34	-368.91	-100	629.99	455.86	**-268.1**	**623.74**
IFC	**-34.40**	-326.1	0	0	64.3	-299.4	**-113**	**-360.5**

Table 5: Original IP (2009) IDB Renewable Energy Program

Source	Local	Foreign	Total
GoM (Energy Transition Fund)	600		600
IDB		300	300
Bilateral development assistance (e.g.KfW)		300	300
Carbon Finance		TBD	
IDB grant		10	10
CTF		125	125
Private Sector		850	850
Total	600	1,585	2,185

With Mexico being among the world's leading producers of geothermal energy and already operating almost 1,000 MW of geothermal generating capacity, the transformational impact of the proposed reallocation of US$34 million is questionable and might be limited to innovative pilot schemes for the scale-up of the still marginal private sector investment and development activities in the sector. Given this context, the initiative should be configured in a way so that (i) the planned facility exclusively supports private sector developers and investors, and (ii) neighbouring countries can benefit from the lessons learnt and capacities developed through the proposed exploration risk mitigation scheme through a knowledge sharing mechanism.

We are aware of the role that Mexico plays globally as a geothermal energy producer, and this impressive body of knowledge and operational experience provides the project with an even bigger potential of transformation. The initiative will be exclusively targeted at private sector projects and developers which are interested in developing geothermal energy projects but are reluctant to incur the extremely high first costs associated with exploration. The project is accompanied by an array of technical cooperation activities. One of them is a revision of the current geothermal energy regulatory framework and proposals of possible changes to the water legislation that governs the deep hydro geothermal sources in order to smooth the transition to a mixed market and promote security in private investors, as well as protection of agents that have already invested resources in geothermal exploration. The knowledge gained by the operation and the technical cooperation activities will be geared toward a technical cooperation activity at the regional level to disseminate lessons learned and provide support to other countries in the region with geothermal potential.