

CLIMATE INVESTMENT FUNDS

April 14, 2016

**[APPROVE BY MAIL]: MEXICO: URBAN TRANSPORT TRANSFORMATION PROJECT-
RESTRUCTURING PAPER- (CTF) (WORLD BANK)- XCTFMX048A**

COMMENTS RECEIVED FROM UK

Mafalda,

It is disappointing to see the slow progress in implementation of this project, and in particular the significant reductions in expected outputs and the scale of the amendments proposed. There seems to be substantial miscalculation errors and overrated assumptions made in the original project appraisal stage, which fundamentally changed the overall picture of the benefits and results to be achieved. Although the amendment paper is helpful to understand the adjustments to indicator targets and changes to the definition of some indicators needed, it does not explain fully what has happened to date, what lessons have been learnt and actions that will be taken to ensure the project gets back on track and deliver on the developmental objective set out in the original business case. It would be helpful to provide further information on the following:

Changes to the scope of project

- It is stated that the proposed changes to the Results Framework do not require any amendments to the Project description and/or development objectives. It is stated that the project will no longer be carrying out scrapping initiatives. This contradicts the rationale given for scrapping in the original project proposal "the introduction of a scrapping program to eliminate the rolling stock displaced by low-carbon measures, which otherwise would just be moved to other areas of the cities involved, or to urban areas. This program would assure the emission reductions achieved through the introduction of new vehicles." How will the project now ensure that the emissions reductions are not cancelled out in this way? what are the estimated emissions consequences?

Expected outputs and outcomes

- With the significant reductions in the expected outputs and outcomes, does the projects still represent a value for money option for CTF to invest in?
- Is there still evidence of transformational potential? In the original proposal the transformational ratio expected was 1:5, has this changed?
- How are investment leverage targets calculated? Would it be possible to see a breakdown of the main components of the overall reduction in these numbers, e.g. separating out the impact of the US\$ appreciation vs. the Mexican Peso?
- We understand that there are challenges in a lack of available consistency in projecting CO2 emission reductions for BRT projects in Mexico. However, how do the revised targets compare to other similar projects?

Lessons learnt to date

- What steps are being taken to ensure that miscalculation errors are corrected and that this will not occur in the future? (question for both the project team and the CIF AU)
- Poor coordination and lack of implementation capacity were already recognised as risks at project initiation and seem to have materialised. What is being done to mitigate these risks going forward?

Implementation and ownership of the project going forward

- This proposal includes removing some indicators and changing targets or definitions for others. How will the project team ensure that monitoring of progress against the remaining indicators is as robust and transparent as possible? For example, annual surveys are mentioned with regards to the travel time and modal shift indicators: is the team confident that these surveys will be undertaken in the cities targeted for the sub-projects, and has a baseline already been established?
- The proposal highlights the low disbursements from CTF/IBRD, have the other contributors to the program also seen low disbursement rates? How does the progress with disbursement for CTF differ from the other funds?

Additional information/clarification on proposed changes to the project

- The link between revised disbursement estimates on p7 and the investment pipeline is not very clear:
 - First, the various projects in the investment pipeline are grouped and presented differently on p3 and p7 (p3: “the Team is focusing on two large sub-projects”; p7: “The revised disbursement estimates correspond to four sub-projects”). Upon reading the project descriptions it seems as though sub-projects i) and ii) on p3 correspond respectively to sub-projects iv) and i) on p7; and sub-projects ii) and iii) on p7 are wrapped into the following description on p3: “bus procurement for private concessionaries in three cities (Reforma corridor in Mexico DF, Leon BRT and Queretaro city-wide transit system)” – except that only 2 cities are mentioned p7...
 - Second, although total financing requirements for these projects are estimated on p3 (adding up to US\$242m in total), the relative proportion of IBRD and CTF funding for each project is not provided, and since the list of projects on p7 doesn't fully overlap with the list on p3 it is difficult to understand how the project team has arrived at the proposed disbursement estimates.
 - Overall it would be useful to see a clear list of pipeline projects with estimated financing requirements and IBRD/CTF funding split for each of them.

Additionality of CTF funding

- Section B, paragraph 2 - "states and municipalities usually have access to other forms of credit (e.g. Fondo Metropolitano) to complete the local counterpart financing, thus reducing the incentive for IBRD/ CTF financing" This suggests that CTF financing is not necessary for this project anymore and calls into question the additionality of the project. What is the additionality of the amended project? What is the evidence of the impact that CTF finance will have on this project? Please provide a detail explanation of why CTF should continue financing this project – we'd be grateful if the CIF AU could also provide their opinion on this too.

We'd appreciate both a response from the project team but also a response from the CIF AU on whether the project provides value for money option for CTF to continue to invest in this project.

Kind regards,

Kate