Early Warning System

IADB-ME-L1264

Program to Support the Implementation and Strengthening of the Energy Reform

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Quick Facts

Countries	Mexico
Financial Institutions	Inter-American Development Bank (IADB)
Status	Proposed
Bank Risk Rating	U
Voting Date	2018-03-12
Borrower	Mexico Energy Secretary (SENER)
Sectors	Energy, Law and Government
Investment Type(s)	Loan
Investment Amount (USD)	$ 600.00 million

Project Description

The IDB is providing this policy-based loan to "contribute to a secure energy supply and to the sustainability of the Mexican energy sector."

Specifically, the project will support energy sector regulation, information generation, planning, operation, and coordination; support an increase in natural gas exploration and extraction, as well as the expansion of the national gas pipeline network; aim to improve the efficiency of the electric power generation and distribution system; implementation of energy efficiency measures; and aims to increase access to electricity service in rural communities and marginalized urban areas.

No specific project sites have been identified, but the results matrix includes expansion of technical assistance for the energy sector to 750 new municipalities, aproximately 5,000 kilometers of new pipelines, and benchmarks in relation to expansion of natural gas and renewable energy.

Early Warning System Project Analysis

Despite the clear and direct impacts that the energy reform will have on the environment, the IDB has labelled this loan as support for clean energy and environmental sustainability. The Bank has also failed to trigger the appropriate safeguards regime to respond to the diversity of impacts and depth of risks posed by implementation of the energy reform.

According to the IDB, the project is classified with risk rating B13 and does not require any specific analysis of environmental impacts since the $600 million loan will not “finance physical investments; its objective is to support the process of the implementation of energy related policies.” Yet, at the same time, the IDB expects these projects to occur as a result: one indicator used to measure the project’s results is the expansion of the national gas pipeline network.

Furthermore, the 2013 Energy Reform undermines the right to prior consultation and consent, forces landowners to cede their lands, and will be implemented in conjunction with militarized security forces to protect energy investments, all of which represent potential human rights violations. Notably, over half of Mexican land is owned collectively, either under ejidos (land granted to farmers and laborers after the Mexican Revolution) or comunidades (indigenous groups). According to the reform, these mostly marginalized communities will have to negotiate land issues directly with private, energy-sector investors. To confront these threats, human rights and environmental organizations have come together to highlight the risks posed by the energy reform.

Mexico's new legal framework establishes that hydrocarbon exploration and extraction, as well the electric power industry, are a public interest. Therefore, these activities will have preference over any other land use or activity. The new law does not recognize the right of affected communities to refuse these types of projects. How communities’ rights will be enforced within this context remains to be seen.

Furthermore, the new legal framework includes a definition of “clean” energy sources that is so expansive that it is virtually meaningless and fails to assess the environmental impact of the technologies that it promotes. Alongside solar and other broadly accepted renewable sources, the definition includes large-scale hydroelectric power, nuclear energy, high-efficiency combined cycle technologies for natural gas, and the “efficient” use of fossil fuels (carbon capture and storage). Also worrisome is the promotion of non-conventional hydrocarbon exploitation through fracking, a practice that involves serious, adverse impacts on water, the environment, and human health. Groups in Mexico are alarmed that natural (shale) gas is being considered as a positive alternative to other fossil fuels and also viewed as a strategy to reduce GHG emissions.

Some of the loan objectives undoubtedly deserve immediate attention, such as the urgency to provide coverage to the 450,000 families that lack access to electricity and to reduce greenhouse gas emissions in the energy sector. However, other objectives raise serious concerns, as does the way in which these objectives will be met. It is already commonplace for renewable energy projects to be implemented in communities that have not been properly informed and consulted. Indigenous groups throughout Mexico have testified about violations of their free, prior, and informed consultation and consent processes regarding projects such as wind farms (Oaxaca), solar projects (Yucatan), and gas pipelines (Sonora); these represent but a few of the energy projects marred by ongoing conflicts in the country. The question remains, how will the Mexican government ensure proper consultation and community engagement when the powers granted to private firms under this new legal framework condone overstepping the rights of communities?

This analysis was originally published to the CIEL blog titled "$600 Million Loan from Inter-American Development Bank will Support Controversial Energy Reform in Mexico," available at http://www.ciel.org/inter-american-development-bank-controversial-energy-reform-mexico/.

Investment Description

- Inter-American Development Bank (IADB)

The IDB states this programatic policy-based loan is the first operation in a series comprised of two independent and technically connected loans. The IDB directs the public to document CS-3633-1 (however no document currently disclosed has that designation).

Contact Information

ACCOUNTABILITY MECHANISM OF IADB

The Independent Consultation and Investigation Mechanism (MICI) is the independent complaint mechanism and fact-finding body for people who have been or are likely to be adversely affected by an Inter-American Development Bank (IDB) or Inter-American Investment Corporation (IIC)-funded project. If you submit a complaint to MICI, they may assist you in addressing the problems you raised through a dispute-resolution process with those implementing the project and/or through an investigation to assess whether the IDB or IIC is following its own policies for preventing or mitigating harm to people or the environment. You can submit a complaint by sending an email to MICI@iadb.org. You can learn more about the MICI and how to file a complaint at http://www.iadb.org/en/mici/mici,1752.html (in English) or http://www.iadb.org/es/mici/mici,1752.html (Spanish).