

Mexico: Framework for Green Growth Development Policy Lending



IBRD Backs Regulatory Reforms for Energy and Transport Sectors

Overview

Drawing upon funding from the International Bank for Reconstruction and Development (IBRD), the World Bank supported a government program in Mexico to develop the regulatory, monitoring, and financial frameworks to encourage lower greenhouse gas emissions in the transport and energy sectors. The IBRD loan supported steps to promote long-term sustainable development in these sectors, such as the publication of regulations to promote the use of renewable energy and the sustainable use of energy. Another policy action was the establishment of a fund to facilitate the reduction of emissions in energy consumption by replacement of incandescent light bulbs with compact fluorescent light bulbs, and replacing inefficient appliances. In transport, another policy action was the creation of the National Infrastructure Fund (FONADIN) and the Federal Support Program for Mass Transit (PROTRAM). All mass transit projects supported by PROTRAM have climate change considerations and have emission baselines.

Challenge

The energy and transport sectors were responsible for more than 70 percent of greenhouse gases in Mexico in 2006. Mexico's energy sector was heavily reliant on hydrocarbons, which represented 90 percent of total energy consumption and fueled over 70 percent of installed power generation. Furthermore, Mexico's transport emissions increased by 27 percent between 1990 and 2005, accounting for approximately 18 percent of Mexico's total emissions in 2005. In addition, high levels of urban air pollution, exacerbated by inefficient transport, represent a major health and environmental concern in Mexican cities. To address the challenges posed by climate change, Mexico had publicly committed to reducing its Greenhouse Gas emissions. The country had ratified the UN Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol, and was one of the first developing countries to commit to a specific carbon reduction target through the use of clean and efficient technologies.

More Results



**US\$1.5
billion**

was the loan from IBRD

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Approach

Mexico established a policy framework that could significantly reduce its carbon footprint in the years to come. The success of this program – detailed in the Special Program for Climate Change (PECC) – is dependent upon the further evolution of regulations, institutions, financing mechanisms, and monitoring and evaluation capacity.

The PECC identified two sectors as particularly central to the climate change agenda: transport and energy. The Bank's aim was to support the Government of Mexico in reducing greenhouse gas emissions through "green" sector policies, incentives, and regulation. Specifically, the "Mexico Framework for Green Growth" operation supported the government's program to further develop the regulatory, monitoring, and financial frameworks for low emissions evolution of the transport and energy sectors.

Results

The Mexico Green Growth Development Policy Loan helped to support improvements in several key outcomes linked to greenhouse gas emissions reductions, among them:

- The government completed its National Emissions Inventory (*Inventario Nacional de Emisiones*) on November 25, 2009, and submitted the 4th National Communication to the UNFCCC on the same date.
- Development of methodologies for the quantification of greenhouse gases for the exploitation, production, transformation, distribution, and consumption of energy, as well as for the avoided emissions.
- Establishment of the Fund for Energy Transition and the Sustainable Use of Energy, and the promulgation of regulations to define the Fund's operations.
- Forty-one cities have approached the Federal Support Program for Mass Transit (PROTRAM) for funding for mass transit projects and funding has so far been approved for four of them.
- All mass transit projects prepared under PROTRAM guidelines need to incorporate climate change considerations and need to have a baseline of green house gas emissions.

Bank Contribution

This loan for US\$1.5 billion from IBRD supported steps to promote long-term sustainable development in the transport and energy sector sectors. Although this loan was not a programmatic operation, the Bank has provided Mexico with continuous support to mainstream its climate change agenda into the energy and transport sectors. Among the operations approved by the Board subsequent to the DPL were the Efficient Lighting and Appliances Project (P106424). This project mobilizes various sources of finance, such as IBRD, CTF (Clean Technology Fund), GEF (Global Environment Facility) for US\$250 million, US\$50 million and US\$7.1 million respectively. In urban transport, the Urban Transport Transformation Project (UTTP, P107159) developed the Investment Plan which the CTF approved for Mexico. This project blended CTF and IBRD financing (US\$200 million and US\$150 million respectively). Finally, the Low-Carbon Development Policy Loan (P121800) was approved in 2010 for US\$401 million.

Partners

Mexico's Environment Ministry, Energy Ministry, and Ministry of Finance provided leadership and support during the implementation of this operation. These Ministries provided coordination and oversight from the outset and encouraged the active participation of all agencies involved in the program.

Moving Forward

The IBRD loan facility is linked to a number of sector-specific engagements that reflect a longstanding and comprehensive policy dialogue and operational relationship between the Government of Mexico and the World Bank. In the energy sector, the World Bank currently supports a variety of initiatives aimed at putting the sector on a low-carbon development path.

Among others, these include studies on renewable resources and on the social and environmental standards needed to develop wind farms. They also include investments in the development of wind plants and studies on the potential for mini-hydro development. In the transport sector, particularly as regards urban transport, this Development Policy Loan builds on and complements the outcomes of such Bank-supported projects as the Mexican Medium-Size Cities Transport Program, which supported the strengthening of local institutional capacity as well as the federal urban transport decentralization process, and the Urban Transport Transformation Project, which financed mass transit projects at concessional rates using Clean Technology Funds.