Major development projects involving infrastructure or extractive industries - both in Latin America and other regions - tend to be financed, either partially or totally, by international financial institutions (IFIs). Given that these types of large-scale projects could have adverse effects on local communities’ livelihoods, cultural heritage and environment, IFIs have established mechanisms to guarantee that the projects they fund meet international environmental and social standards. Though not perfect, such mechanisms do at least allow organised citizens to access project information and to demand concrete ways to get engaged in project decision making. Using a successful case from Mexico, this Brief reflects on the role of informed citizen participation as a crucial factor facilitating accountability within development projects with international funding.

OVERVIEW: INTERNATIONAL FINANCIAL INSTITUTIONS’ ACCOUNTABILITY MECHANISMS

Nowadays, hundreds of development projects related to infrastructure and large-scale extractive industries activities in developing countries are funded by IFIs. The World Bank Group has led the way in setting safeguard policies and performance standards to help prevent and mitigate harm to people and their environment that might be caused by the development projects they fund. They have also created accountability mechanisms for responding to complaints from affected communities. The regional banks, such as the Inter-American Development Bank, Asian Development Bank and African Development Bank, must also comply with specific standards.

Before turning to the Latin American use of these standards, it is worth briefly identifying the international financial institutions that implement them and discussing the three key types of policies and set-ups in place: access to information policies; safeguard policies; and accountability mechanisms.

KEY LESSONS LEARNED

Citizen participation from the onset of IFI-funded development projects enables identifying environmental and social risks.

Local people’s participation is needed throughout all phases of the project cycle, so they have the opportunity to make decisions regarding their own lives.

Informed citizen participation can enhance accountability not only within development projects, but also through spill-over effects on accountability at the community and country level.
ACCESS TO INFORMATION
Through these policies, IFIs

SAFEGUARD POLICIES/ PERFORMANCE STANDARDS

ACCOUNTABILITY
These
Once people are informed,
and the type of organisation - public or private - receiving
the funding. For example, the World Bank’s Inspection
Panel receives demands when it comes to public funding,
whereas the IFC’s CAO works on conflict resolution for
funding to the private sector. The IDB uses its accountability
mechanism, the ICIM, for its funding of both public and
private organisations.

CITIZEN PARTICIPATION AND IFI ACCOUNTABILITY MECHANISMS: THE LATIN AMERICAN EXPERIENCE

Since these accountability mechanisms were created,
citizens in diverse countries have put them to use, demanding
consultation rights, advocating for changes in development
projects they did not agree with, and overall protecting their
communities from those project’s potential negative impacts.
Table 2 highlights some of the key Latin American cases
where the IFI accountability mechanisms have been invoked.

While the mechanisms have been put in place, using them
successfully has not been easy. There are many cases in
Latin America in which citizens used the channels to make
complaints but no modifications to the project were actually
made. On the other hand, active citizen participation within
the IFI process always brings some kind of changes, if not at
the project level, then by highlighting structural challenges at
the country and community level, as well as through

Table 1: IFIs’ Access to Information, Safeguards and Accountability Mechanisms

<table>
<thead>
<tr>
<th>INSTITUTION / PRINCIPLES</th>
<th>ACCESS TO INFORMATION POLICY</th>
<th>SAFEGUARD POLICIES / PERFORMANCE STANDARDS</th>
<th>ACCOUNTABILITY MECHANISM</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank*</td>
<td>Sets timing for disclosing information and lists categorisation and exceptions (information that cannot be disclosed until a certain time period has passed).</td>
<td>Use of country systems; environmental assessment; conservation of natural habitats; forest protection; pest management; preserving physical and cultural resources; involuntary resettlement; benefits for indigenous peoples; safety of dams; dispute over international waterways; conciliation for disputed geographic areas.</td>
<td>Inspection Panel</td>
</tr>
<tr>
<td>International Finance Corporation (IFC)</td>
<td>Establishes scope of information made available to the public either routinely or upon request.</td>
<td>Environmental and social risks and impacts; labour and working conditions; pollution prevention; community health; safety and security; land acquisition and involuntary resettlement; biodiversity and sustainable management of natural resources; indigenous peoples; cultural heritage.</td>
<td>Compliance Advisor Ombudsman (CAO)</td>
</tr>
<tr>
<td>Inter-American Development Bank (IDB)</td>
<td>Sets timing for disclosing information and lists categorisation and exceptions.</td>
<td>Environment and safeguards compliance; disaster risk management; indigenous peoples; involuntary resettlement.</td>
<td>Independent Consultation and Investigation Mechanism (ICIM)</td>
</tr>
<tr>
<td>Equator Principles (guidelines requiring compliance with IFC standards): Adopted by 77 of the world’s largest private financial institutions</td>
<td>Sets timing and manner for disclosing information and criterion for free, prior and informed consultation.</td>
<td>Review and categorisation; social and environmental assessment; applicable social and environmental standards; action plan and management system; consultation and disclosure; grievance mechanism; independent review; Equator Principles’ Financial Institutions reporting.</td>
<td>Grievance Mechanism</td>
</tr>
</tbody>
</table>

*Includes IBRD and IDA.

Own elaboration.

Access to Information Policy: Through these policies, IFIs govern release of information that enables citizens to know things like what projects are to be funded in their country, how much money will be used, who is responsible for supervising and executing, what the environmental and social impacts are and what benefits they can expect.

Safeguard Policies and Performance Standards: These standards help to prevent and mitigate harm to local people and their environment. They establish the ‘rules of the game’, meaning the norms that borrower countries and companies have to comply with when implementing a project with international funding.

Accountability Mechanisms: Once people are informed, thanks to the Access to Information Policy and the timing for disclosure, they can use the accountability mechanisms in place to ensure that project implementers comply with the Safeguard Policies and Performance Standards. They can also assure that platforms are provided for the participation of all stakeholders.

The accountability mechanisms vary depending on the IFI and the type of organisation - public or private - receiving the funding. For example, the World Bank’s Inspection
putting forward specific recommendations and enabling community collaboration.

Other cases, like the Mexico one analysed here, achieved concrete changes in the development project itself. This case showcases how a group of organised citizens activated an IFI accountability mechanism to defend their rights, land and natural resources, even managing to stop the project and prevent the harm it would cause their community. The emphasis of the analysis will be on the contextual factors that made this experience successful and on the lessons learned that might be useful for other countries.

CASE STUDY: CERRO DE ORO HYDROELECTRIC PROJECT

Introduction

In 2009, to the surprise of local communities, construction began on the Cerro de Oro hydroelectric project in the state of Oaxaca, Mexico. The project had been developed and approved without having informed, consulted or received approval from the affected communities. These communities were not aware that the project violated human rights and national and international policies, and would have serious environmental and social impacts.

The Project planned to convert the existing Cerro de Oro Dam into a hydroelectric dam that could generate up to 10.8 MW of electrical power. A US-based international financial institution, the Overseas Private Investment Corporation (OPIC), provided funding to Conduit Capital Partners, a private US company, which contracted two Mexican private companies as the Project Sponsors. The energy produced was meant to be sold to private buyers via the Mexican national grid. The produced electricity would benefit three different private plastic container industries with gains for the Project Sponsors. However, there were no benefits for the local communities or the general Mexican population, since the gains were already sold. Furthermore, local

![Figure 1: Map of Tuxtepec, Oaxaca](http://www.fincamundonuevo.com/ubicacion.html)
communities’ needs regarding electricity and water supply were not taken into account or even meant to be directly addressed. Though the community was not benefitting, the dam and the Mexican national grid that were meant to be used are State-owned and maintained through taxes.

The four communities that would be directly impacted by the Project are Paso Canoa, Los Reyes and Santa Úrsula in the municipality of Tuxtepec, and El Cerrito from the municipality of Ojitlan. These are poor communities whose inhabitants face low standards of living.

Table 3: Municipalities’ Standards of Living

<table>
<thead>
<tr>
<th>Municipalities</th>
<th>Total Households</th>
<th>Percentage of Households Without</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Electricity</td>
</tr>
<tr>
<td>Tuxtepec</td>
<td>50,351</td>
<td>1.7%</td>
</tr>
<tr>
<td>Ojitlan</td>
<td>4915</td>
<td>9.3%</td>
</tr>
</tbody>
</table>

What Standards and Norms Had Been Violated? What Were Local Communities’ Complaints?

Though there had been no disclosure or community consent, once community leaders did learn about the Project, they immediately got organised and sought legal advice and support. They contacted two lawyers from Accountability Counsel, a US civil society organisation (CSO), and representatives from the Mexican CSOs Educa, Habitat International Coalition - Latin America and Fundar, Center of Analysis and Research (the author of this Brief).

These organisations came together to form a working support group. They quickly found out that some of the IFC’s Performance Standards and the Equator Principles had already been violated, including:

Lack of information disclosure and consultation:

- The affected community was not informed about the project and its impacts. In particular, the Environmental and Social Impact Assessments were not disclosed, meaning the risks, alternatives and mitigation and compensation measures were not disseminated.
- The community was not consulted about the project.
- Project Sponsors did not establish a grievance mechanism.

Environmental and livelihood impacts:

- The Project would cause physical and chemical alterations to the La Sal Creek and to the Santo Domingo River. Both are indispensable local water sources for consumption, household use, bathing, fishing, livestock and irrigation.
- Risks would also be posed to birds and bat species. Deforestation and land modifications in the communities’ protected areas would also likely take place.

Community health and safety impacts:

- The use of dynamite to dredge the La Sal Creek endangered the dam structure and the houses closest to it.
- Project Sponsors did not provide an Action Plan to avoid impacts on communities’ health and safety.

Bad faith negotiations and inadequate compensation for land acquisition:

- Community members were undercompensated in negotiations for easement and acquisition of communities’ lands.
- Project Sponsors made promises for compensation projects like constructing bridges and community buildings, paving roads and building of wells, though these were not made in any formal contract.
- They started the Project construction without having any specific plan in place for complying with the promises they made for mitigating impacts when negotiating for land acquisition with local people.

Non-fulfilment with IFI categorisation requirements:

- The Project was deemed Category A (see Text Box), meaning the highest level of adverse impacts, though it did not comply with all the measures applicable to that category. This included considering environmentally and socially preferable alternatives and consultation and participation of affected communities in the design, review and implementation of the project.

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2 OPIC requires that the projects it supports comply with these guidelines. See OPIC’s website for more information about its requirements.
IFI’s Project Categories

Most IFIs categorise projects depending on the severity of their potential environmental and social impacts. Each category has to meet certain standards. Though these standards do vary slightly depending on the IFI, broadly the categories are:

- **Category A** projects are likely to present significant adverse environmental and social impacts
- **Category B** projects have potentially adverse impacts, but less than Category A
- **Category C** projects have minimal or no adverse impacts

Sources: World Bank’s Project Categories; IFC’s Project Categories.

How Did Local Participation Make a Difference?

With the assistance of the working support group, once local people organised themselves and obtained information about the likelihood of negative impacts, in November 2010 they filed a complaint to the OPIC’s Office of Accountability detailing the project’s policy violations. In the complaint they requested:

1. Immediate suspension of the Project
2. An independent environmental assessment and mitigation plan
3. Ceasing alterations to the La Sal Creek
4. Disclosure of a complete record of Project documents, in easy-to-understand formats

After receiving the complaint, OPIC representatives visited the region in January 2011 to meet with community authorities, the working support group and Project Sponsors. One month later, OPIC announced its finding that Project Sponsors had violated applicable norms, and that they would therefore stop the project until an agreement could be reached. OPIC then convened a dialogue series between the main stakeholders, communities and companies to build consensus about the way forward.

As a result of the successful dialogues held in March 2011, participants reached a historic agreement: construction of the project would be completely halted and Project Sponsors would have to design an alternative project that avoided damages to the La Sal Creek. Project Sponsors then would have to present the alternatives to the communities, who would be able to decide which option, if any, they preferred. Project Sponsors specifically agreed to accept the communities’ final decision.

During the rest of 2011, several more dialogues were held as part of the dispute resolution process, which included important stakeholders such as the working support group and government authorities. A drawback within the process was that, due to the lack of information regarding their own rights, one of the first agreements that the communities’ authorities signed with the OPIC’s Office of Accountability was to keep the dialogue proceedings private. This was of course controversial because it prevented the case from being publicly discussed, with implications for freedom of speech and informed participation.

Local government officials were integrated into the dialogue process thanks to pressure from the community, who demanded the authorities’ participation because of their role in granting permission for the Project in the first place. Thus local people demanded that their government be more widely accountable. By getting actively involved in the redress process, local people also found that some of their government institutions, such as the National Water Council (CONAGUA), were in fact not effectively complying with their responsibilities. In this sense, citizen participation helped to maintain local government accountability and enhanced institutional capacities, and had a direct and positive impact on the relationship between citizens and their government representatives.

At present, the Project remains on stand-by and the communities are still in the negotiation process with the Project Sponsors and the Mexican government. An alternative Project has been proposed, but environmental and social assessments still need to be done. Communities will have to be informed and consulted, and they will have the final say over whether or not they accept the project and its implications, including a compensation plan, if applicable.
## WHAT DOES THE CERRO DE ORO CASE SHOW?

The case of the Cerro de Oro Hydroelectric Project shows the importance of organised citizen participation for increasing accountability in large-scale development projects. If the affected communities would not have become engaged, construction would have already begun, bringing with it destructive impacts.

Citizen participation in this case also triggered the involvement of the government authorities, since the community demanded accountability in the decision-making process that gave authorisation for the project. As the Cerro de Oro case shows, governments are also responsible for development projects, meaning they must be held accountable and be involved in the negotiation processes.

The case highlights the importance of creating a support group that can assist local people and operate as an interlocutor with other stakeholders. It also proves the role of information as a prerequisite for citizen participation and especially for activating an IFI accountability mechanism. Once local people became aware of the project and its impact, they became mobilised, managing to change the course of a project that would have impacted their lives directly and permanently.

This case supports the idea that it would have been easier and cheaper for the Project Sponsors to favour a participatory process from the onset. By engaging communities and enhancing citizen participation, project risks are mitigated, contrary to the belief of many large-scale project sponsors who think that complying with safeguard policies and environmental and social norms will increase project operating costs.

Several contextual factors enabled the success of this case. First, stakeholders showed a high level of participation and organisation, and their conviction and active engagement in an early stage of the project was vital to change the Project’s course. This allowed local people to become active agents of their own development process, which prompted collective action. They managed to bring the government authorities to the negotiating table and make them commit to complying with their responsibilities.

Second, the supporting working group formed by US and Mexican CSOs played an important role providing legal assistance to the communities, making information requests, communicating and liaising with other stakeholders, translating information from the international institution and networking with other CSOs in the country.

Finally, another important factor was OPIC’s willingness to investigate the case, activate its own accountability mechanism and start a conflict resolution process.

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### CONTEXTUAL FACTORS

The importance of citizen participation in development projects.

### LESSONS LEARNED

| 1 | It is crucial to ensure community awareness regarding policies, standards and accountability mechanisms of large-scale development projects. The IFIs have mechanisms in place, but these can only be capitalised on if communities have access to information throughout all the project's phases: identification, preparation, appraisal, implementation, completion and evaluation. It is important that these mechanisms do not substitute the country’s own normative and legal framework, but rather, they strengthen it. |
| 2 | Informed participation is crucial so that citizens can become active agents of their own development processes. In this way, they are able to hold governments, enterprises and international financial institutions accountable and to guarantee the protection of human rights. |
| 3 | As this case shows, the role of citizen participation through consultation is crucial for making development projects transparent and activating accountability mechanisms when necessary. Organised collective action from local people and CSOs, and including the media in the process, enhances transparency and puts the case into the public eye for analysis and debate. |
| 4 | Citizen participation can have a spill-over effect since it sheds light on other local and structural problems, such as weak governance and poor performance by government authorities. Even if in the end the project is not modified, active participation brings positive changes at other levels of community-government interaction. |

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### CONTACT FUNDAR

To learn more about informed citizen participation and accountability in development projects in Latin America, contact Mariana González, researcher in Fundar’s Transparency and Accountability Area, mgonzalez@fundar.org.mx.

### FIND OUT MORE FROM ELLA

To learn more about citizen participation in IFI-funded development projects, read the ELLA Spotlight on Publications. To learn more about other aspects of Citizen Participation in Latin America, read the ELLA Guide, which has a full list of the knowledge materials on this theme. To learn more about other ELLA development issues, browse other ELLA Themes.