Water Resiliency Fund Guidelines

Table of Contents

Water Resiliency Fund Guidelines

Introduction

The U.S.-Mexico border region has historically faced water scarcity due to its semi-arid to arid climate. In the 21st century, stress on limited water resources has increased as a result of demographic and economic growth, recurring droughts and chronic underinvestment. This problem is further exacerbated by the fact that many communities and agricultural districts rely on a single water source, increasing their vulnerability to drought. For example, cities in Baja California rely almost exclusively on water from the Colorado River, while certain irrigation districts in Texas are similarly dependent on the Rio Grande—both of which are experiencing ongoing reductions in flow. Communities and irrigators that depend on groundwater aquifers are also experiencing declining water tables and, in some cases, deteriorating water quality due to over-extraction.

The interplay between agricultural and municipal systems is another critical factor in water management in most areas within the border region. These sectors are deeply interconnected, often competing for the same sources of water, while also offering opportunities for mutual benefit. However, inefficiencies in municipal and agricultural water use are widespread, and water reuse remains low across the region, representing a missed opportunity to diversify and augment water supplies.

Additionally, binational watersheds are impacted by water management behaviors and practices on both sides of the border. Water conservation plays a critical role in supporting binational commitments, such as the 1944 Water Treaty between the United States and Mexico. The treaty governs the allocation of water from the Rio Grande and the Colorado River, requiring both countries to deliver specified volumes annually. However, recurring drought and declining flows have made it increasingly difficult to meet these obligations.

Strategic investments in conservation, including reducing water losses and improving efficiency in water deliveries, irrigation methods and municipal systems will improve long-term water security for municipalities and irrigation districts. To support these efforts, NADBank established the Water Resiliency Fund (WRF or the "Fund"). This document establishes the operating guidelines for the program, including eligibility requirements, financing options and the project selection and approval process.

1. WRF Objectives

The primary objective of the WRF is to provide financing to address critical financing gaps for infrastructure projects that strengthen the resilience of water resources in the U.S.-Mexico border region. Under the Fund, the Bank will prioritize initiatives that support water conservation and the diversification of supply sources, with the overarching goal of promoting a more efficient use of limited water resources and enhancing the capacity of the region to withstand droughts and other extreme climatic events.

To maximize the impact of the Fund, the Bank will seek to leverage WRF resources—traditional or conditional grants, low-interest loans or blended financing—by combining them with complementary programs and funding sources. This collaborative approach is designed to enhance the overall investment ecosystem and accelerate the implementation of high-priority water infrastructure projects.

To address the technical, financial and institutional barriers that hinder the implementation of critical water projects, the Fund will provide innovative financing tools that enhance water security while ensuring affordability for beneficiaries.

2. Eligibility

A. Project Location

Eligible projects must be located within the U.S.-Mexico border region, defined as the area within 100 kilometers north and 300 kilometers south of the international boundary between the two countries (the "border region"). Pursuant to its Charter, NADBank may address a project outside the border region upon a decision by the Board of Directors that the project would remedy a transboundary environmental or health problem.

B. Sponsors

NADBank will engage with different types of organizations to finance innovative investments effectively.

Table 1

Category	Sponsors
Public entities	- Water utilities and special districts or authorities defined by legislation or statute - Towns, municipalities, counties - States - Mexican federal entities, such as the Mexican National Water Commission (CONAGUA)
Private entities	- Agricultural water users, including cooperatives - Private concessionaires
Mixed entities	- Private-public partnerships and joint ventures - Financed public works (obras públicas financiadas) - Irrigation districts or authorities (quasi-public) - Community-based organizations (co-sponsored by appropriate public authorities)

C. Project Types

Water infrastructure projects that enhance water resiliency, including diversification of sustainable water resources and conservation in municipal and agricultural use, are eligible for funding through WRF, as illustrated in Table 2.

Table 2

Category	Infrastructure Types
Water resources diversification in municipal systems	1. New construction or improvements to existing water supply sources that are currently not utilized, optimized or operated efficiently, such as wells, treatment facilities and conveyance infrastructure. 2. Development of new surface or groundwater sources, including capture, treatment and conveyance infrastructure, subject to a determination of sustainable yield and water rights. 3. Facilities for water reuse (including non-potable and indirect potable reuse), such as new or improved wastewater or water treatment plants and conveyance infrastructure. 4. Facilities for the use of impaired-quality sources, such as brackish or contaminated groundwater and seawater, including treatment, desalination and conveyance. 5. Stormwater capture and reuse through conventional or green infrastructure options, including infiltration basins, surface reservoirs and necessary treatment and conveyance infrastructure.
Water conservation in municipal systems	1. Rehabilitation of existing infrastructure leading to water conservation and reducing non-revenue water, such as replacing and rehabilitating pipes, storage tanks or other facilities. 2. Municipal infrastructure, equipment or systems that enhance conservation and reduce non-revenue water, such as water meters and water fixtures, telemetry systems, etc.
Water conservation in agriculture	1. Rehabilitation of infrastructure and other improvements aimed at reducing water losses and promoting more efficient water use, including lining canals, converting canals to pipelines, land grading, drainage infrastructure, facilities to reuse or recirculate water, stormwater capture, and storage facilities to reduce losses. 2. Infrastructure, equipment and other improvements that promote more water-efficient agricultural practices, such as modernizing irrigation systems (e.g., replacing flood irrigation with drip irrigation), improving soil health or diversification of crops. 3. Equipment to control water use and facilitate conservation, such as efficient pumping systems, automated gates and telemetry.

Water conservation or diversification projects in small communities that may be eligible for a grant through the Community Assistance Program (CAP) will be considered for NADBank funding through that program.

3. Financing Options

Up to 50% of the total cost of eligible projects may be financed through a combination of grants and low-interest rate loans under the WRF.

A. Grant Financing

Traditional grants are designed to support projects that may not otherwise be viable through commercial lending alone, particularly in communities with limited financial capacity or where the environmental and social benefits are especially significant. These transactions are non-reimbursable funds that are generally structured to mature one year after project construction and often come with limited conditions regarding the long-term performance of the sponsor. While grants can jumpstart important projects, their structure may pose challenges for ensuring sustained operation and maintenance (O&M) over time, as there is usually limited recourse if a project underperforms.

Conditional grants, in contrast, tie the financial concession to the achievement of specific performance targets. Under this model, key performance indicators (KPIs) are agreed upon at the outset, typically with a multi-year implementation and monitoring period. If the project sponsor does not meet these KPIs, a portion or even all the proceeds will be required to be reimbursed to NADBank. This approach not only provides financial support but also incentivizes long-term success and sustainability.

B. Low-interest Rate Loans

These loans will provide affordable financing for communities that possess some repayment capacity but are unable to meet the scale of their water infrastructure needs through conventional lending. The goal is to make essential investments feasible while maintaining long-term financial sustainability. This form of financing is especially suitable for projects with strong institutional sponsors that can manage repayment obligations but require support to close affordability gaps or enhance the feasibility of the project.

Low-interest rate loans are fully repayable but are offered at terms below prevailing market rates. These terms may include zero interest or interest rates that are reduced by several percentage points, depending on the project's potential to generate meaningful environmental benefits.

To broaden the scope and impact of available WRF funding, NADBank may complement these instruments with its traditional, commercially based financing to cover any remaining costs not funded by other sources. Wherever feasible, the Bank will prioritize the use of such financing before deploying WRF funds. In addition, projects incorporating innovative financial structures to attract private investment may be eligible for subordinated loans or quasi-equity investments, in line with NADBank's Financial Operating Policy.

4. Funding Allocation

To ensure balanced support throughout the border region, available funding under the WRF will be divided equally between Mexico and the United States. In addition, concessional financing under the WRF will be limited to a maximum of 50% of the costs of the project.

The choice of financing instrument—and the proportion of concessional financing in the overall financing package—will depend on several factors, including the financial capacity of the project sponsor, the expected impact on water conservation or the development of new water sources, and available Bank resources at the time of funding. Ideally, WRF funds will be structured to complement NADBank commercial financing and/or attract co-financing from other public or private entities, helping to maximize the reach and impact of the investments.

5. Program Implementation

Investment needs in the border region for water conservation and diversification—across both agricultural and municipal uses—are vast and exceed the availability of grants and other concessional financing. Therefore, NADBank will prioritize the agricultural sector in both countries for the first wave of grant funding. By initially focusing on agriculture, the Fund can target high-impact opportunities for conservation and water use efficiency, where there is both demonstrated need and a policy environment conducive to success.

As additional funding becomes available in future phases, WRF priorities will be revisited to determine whether continued focus on agricultural projects is warranted or whether to expand support to include municipal water use based on evolving needs and opportunities.

Technical Support and Capacity Building

Specific technical assistance may be offered to support overall water planning and projects that lack elements needed for financing, such as final designs or legal structuring. This assistance will be funded through the NADBank Technical Assistance Program (TAP).

In addition, NADBank will require sponsors to send staff to its Utility Management Institute (UMI). Although no immediate changes to this program are anticipated, NADBank will update the program so that it evolves to provide up-to-date practices to its water clients.

6. Project Identification and Selection

The project identification and selection process will be carried out in multiple phases of implementation, each potentially focusing on a distinct region, sector, or project type. NADBank may coordinate with federal and state government entities with complementary funding programs to identify strategic, high-priority projects. Alternatively, NADBank may issue competitive calls for projects. Competitive opportunities will be posted on the NADBank website, and announcements will be disseminated using social media and other outreach platforms.

A. Agriculture Sector

The Fund seeks to support projects with a demonstratable, significant impact on water conservation and water use efficiency or that augment water supplies. The political and legal frameworks governing water rights and the agriculture sector differ significantly between the two countries; therefore, a tailored approach to project identification and selection will be implemented to identify high priority investments in this sector.

In general terms, NADBank will seek to prioritize projects in the agriculture sector that have characteristics aligned with, but not limited to, the following evaluation criteria.

Table 3

Evaluation Criteria	Potential Indicators
Water conserved or developed Project results in increased availability of water for delivery.	▪ Amount of water conserved ▪ Amount of "new or supplemental" water available for delivery (e.g., reuse, stormwater capture, etc.)
Community benefits In addition to increasing water resiliency for agriculture, the ideal project will provide benefits to neighboring communities.	▪ Population that will benefit ▪ Volume of conserved water that directly benefits a community
Other environmental benefits Projects that provide additional benefits, such as runoff control and water quality improvements, habitat protection or restoration, or stormwater capture.	▪ Improved water quality (e.g., amount of pollutant load eliminated, area with improved erosion control) ▪ Restored habitat/ecosystem (e.g., area of improved habitat, amount of water released for environmental flows) ▪ Amount of stormwater captured, stored or used ▪ Reduced risk of flooding
Cost-effectiveness	▪ Cost per acre-foot per year of water conserved or "new" water developed
Project Readiness Projects that exhibit readiness for construction based on completed design; necessary land, easements, and permitting; and secured financial resources to supplement WRF.	▪ Time required to initiate construction based on technical development, status of construction authorization tasks and committed financial resources (e.g., design, permitting, match funding secured).

B. Municipal Systems

The types of sponsors and water conservation and source diversification projects in municipal systems, in both countries, are also very diverse. Virtually all municipalities in the border region have water supply investment needs due to increasing demand driven by population and economic growth and diminishing water sources. To maximize the impact of the Fund, municipal projects will be selected considering evaluation criteria such as, but not limited to, those factors described in Table 4.

Table 4

Evaluation Criteria	Potential Indicators
Water conserved or developed Project decreases demand on potable water sources, diversifies water supply portfolio and generally improves reliability of water supply for drinking water.	▪ Amount of water conserved or volume of reduced demand on potable water supply ▪ Amount of new or supplemental water supply (e.g., reuse, desalination, etc.) ▪ Augmented water supply portfolio (% change)
Cost-effectiveness	▪ Cost per unit of water conserved or "new" water developed
Project Readiness Projects that exhibit readiness for construction based on completed design; necessary land, easements and permitting; and secured financial resources to supplement WRF.	▪ Time required to initiate construction based on technical development, status of construction authorization tasks and committed financial resources (e.g., design, permitting, match funding secured).
Financial stewardship of sponsor Promotes essential policies and best practices by water utilities to foster responsible management of scarce water resources.	▪ Percentage of non-revenue water ▪ Water rate structure that encourages conservation

7. Determination of NADBank Financing

For selected projects, NADBank will perform a comprehensive financial analysis to assess the debt capacity, investment strategy and cash flow generation potential of the sponsor. This assessment will consider factors, such as:

1. Capital costs of the project
2. Operating and maintenance expenses
3. Current operating and administrative costs
4. Existing revenue and debt capacity, evaluated through metrics such as:
    a. Project investment cost (excluding proposed loan) / operating cash flow
    b. Total debt service / operating cash flow
5. Projected future revenue
6. Capacity and ability to adjust water rates or leverage other revenue streams
7. Identified funding sources
8. Capacity and ability to operate and maintain the infrastructure financed

Based on the findings, NADBank will determine the level of grant or low-interest financing required to ensure the financial viability of the project.

In all cases, the preferred financing structure will be low-interest rate loans or conditional grants, where the concessional benefit is distributed over time and linked to the achievement of agreed-upon KPIs. If only low-interest loans are required, NADBank will similarly look to tie the interest rate benefit to performance-based KPIs. Traditional grants will only be

considered when absolutely necessary. WRF grants and low-interest rate loans can only fund up to 50% of the total project costs.

It should also be noted that in Mexico all WRF financing operations with public entities must comply with the provisions of the Mexican Financial Discipline Law for States and Municipalities.

Contractual instruments will be tailored to each type of financing, taking into account the nature of each particular operation.

8. Key Performance Indicators (KPIs)

All project sponsors will be required to establish KPIs to measure their operational and financial efficiency. Compliance with these indicators will strengthen their capacity to continue their investments in water conservation and diversification opportunities and will be monitored to maintain or seek future concessional financing.

Once the amount and terms of concessional financing are established, NADBank will define KPIs that must be met by the project sponsor to access the full benefits of the low-interest loan or conditional grant. These KPIs will be included as performance covenants in the contractual agreements and will be monitored semi-annually or annually. Potential KPIs are presented in the following table.

Table 5

Key Performance Indicators by Sector	
Agricultural Projects	**Municipal Projects**
a. Volume of water conserved b. Verifiable commitment to free up water concessions and retain conserved water in aquifers, reservoirs or for ecological flows for a specified period c. Partial or full transfer of conserved water to a municipal user for a specified period d. Institutional strengthening measures, such as: • Improved water metering • Implementation of rate increases • Adequate reserves for maintenance and replacement	a. Improvements in physical and commercial efficiency b. Reductions in per capita water use c. Expansion or enhancement of metering d. Adoption of adequate rate structures e. Establishment of adequate reserves for maintenance and replacement

In addition, all projects will include explicit covenants regarding adequate operation and maintenance budgets and appropriate reserve accounts to ensure the long-term sustainability of the infrastructure.

9. Project Certification

All project proposals requesting funds under the WRF will be evaluated by NADBank in accordance with its existing due-diligence processes. Each proposal will be presented for Board approval through the required project certification and public participation process and will include a justification for the use of concessional or low-interest financing.

Projects funded through WRF are not eligible for consideration under the Water Investment Program (WIP).

10. Fund Evaluation and Reporting

NADBank will administer projects funded under WRF with the same rigor and following the same procedures and due-diligence processes currently used for all loans and grants. These processes include identifying and reporting on the environmental benefits expected from each project by means of a results measurement matrix and preparing a closeout report summarizing the results of the project after the first year of operation.

The Asset Management Department will monitor all project covenants, including compliance with any KPIs stipulated as part of the concessional financing.

The sponsor will commit to providing information on the use of the grant and/or loan proceeds to identify the environmental benefits and verify compliance with any established KPIs related to concessional financing. NADBank and the sponsor will agree on the terms of such reporting based on the type of project, the disbursement period and the end of the financing implementation period.

NADBank Management will provide a general report of the projects financed under the WRF and its estimated environmental benefits as part of the NADBank quarterly status report.