



Proposed Revisions to the Water Investment Program

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NORTH AMERICAN DEVELOPMENT BANK

PROPOSED REVISIONS TO THE WATER INVESTMENT PROGRAM (WIP)

1 Introduction

NADBank intends to propose making the Water Investment Program (WIP or the "Program") permanent. The Program was approved by the Board under BD 2025-1, as amended by Resolution 2025-3, as a pilot initiative scheduled to end on December 31, 2026. The purpose of the Program is to advance key objectives of the Strategic Plan for 2024-2028 (SP 24/28) by growing the development asset portfolio and maintaining water as the highest investment priority. The Program would retain the core structure of the pilot phase, including a programmatic certification and financing approval by the Board of all projects that meet Program requirements, and ratification of each project by the Managing Director and Chief Environmental Officer.

In addition, three amendments are proposed: (i) removing the aggregate financing commitment limit of up to US\$175 million for loans and Community Assistance Program (CAP) grants approved for the pilot phase, and providing that financing commitments under the Program be subject to the Bank's applicable loan policies and available CAP funding as authorized by the Board, (ii) increasing the per-project loan limit from US\$15 million to US\$25 million for loans denominated in U.S. dollars and from or MX\$300 million to MX\$500 million for loans denominated in Mexican pesos to better reflect the current cost of typical water infrastructure investments in the border region while maintaining the Program's focus on routine, lower-risk projects, and (iii) clarifying the Board ex-ante notification procedures to confirm that due diligence may proceed in parallel with the notification period, and that the Board may determine that a notified project is not eligible under the WIP and require its referral to the standard certification and financing approval process. . Border Environment Infrastructure Fund (BEIF) grants for projects certified pursuant to the Program shall continue to be approved by the applicable regional office of U.S. Environmental Protection Agency (EPA) in coordination with the Mexican National Water Commission (CONAGUA), as appropriate. Management has made other conformance changes to the document, primarily to align provisions with the Project Safeguard Policy adopted by the Board in 2026.

2 Program Procedures and Guidelines

Eligibility Criteria

In order to be eligible for consideration under the WIP, a project must meet the following criteria:

A. Project Location

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 United States and Mexico (the “border region”).

B. Project Types

Water infrastructure projects that have a direct environmental or health benefit including:

Category	Infrastructure Types (indicative list)
Water resources management	Rehabilitation and construction of new facilities to diversify water sources, increase resilience, or make more efficient use of water supplies for both municipal and agricultural purposes, such as water conservation, treated wastewater reuse and development of alternative water sources.
Drinking water treatment and distribution	Rehabilitation and construction of new drinking water treatment, transmission, storage, distribution, and metering infrastructure.
Wastewater collection and treatment	Rehabilitation and construction of wastewater collection, conveyance, treatment and sludge management facilities installation of new sanitary sewer connections, on-site systems.
Stormwater management	Piped systems, retention basins, culverts, canals, berms, erosion control, flow velocity control, green infrastructure.
Ancillary works to above sectors	Operational equipment (e.g., backup pumps and generators, sediment removal equipment, etc.), alternative energy source, projects to increase operational efficiency (energy efficiency, telemetry and technology to improve commercial systems), system/source security.

These projects may include the construction of new infrastructure and equipment acquisitions, as well as investments for rehabilitation or to improve operations. Details of eligible water investment infrastructure and environmental benefit indicators are provided in Annex 1.

C. Environmental and Financial Risk Limits

Using established NADBank risk analysis tools, eligible projects for programmatic certification must meet the following requirements:

- **Financial Risk Assessment:**
Sponsors and/or borrowers must possess the requisite capacity and expertise to implement and operate the project and ensure the attainment of its objectives. In the case of loans, NADBank will not lend to projects rated B- or lower under its internal credit risk models, which is based on Standard & Poor's scorecard methodology and uses its nomenclature: 22 categories ranging from AAA to D.
- **Performance Risk Management System (PRMS):**
Project must fall within category B or C (medium to low risk): Transactions typically involve projects with few or no adverse environmental and community impacts. Categorization is based on project type, project cost, site condition and location, and document/permit requirements.
- **Performance Risk Score:**
Project must fall within categories 1 through 3 (very low to medium risk): Projects are rated on a 1 to 5 numeric scale, with 1 indicating very low risk and 5 indicating very high risk. Scores between 1 and 3 suggest effective mitigation mechanisms are in place to minimize impact.

D. Certification Criteria

For approval, the project sponsor must be able to demonstrate that the project complies with NADBank Certification Criteria and/or has the ability to comply with the criteria, including compliance with all applicable permitting and environmental clearance regulations.

Projects that do not meet all the program criteria established in these guidelines, are not eligible under WIP and must be submitted to the Board of Directors for consideration of certification and financing approval.

Uses of Funds

Funds may be used for project construction and related costs, including design, project management and supervision, as well as other project components, such as equipment or materials acquisition and/or installation. Loan funds may be used for the start-up of operations, process testing and to establish reserve accounts.

Financing Options

Subject to the rules established for each funding program, the financial structure proposed for a project eligible under the WIP may involve a senior loan, grant, blended financing product or a combination thereof. The appropriate option will be determined based on the characteristics of the project sponsor and benefited population, as described below.

Funding Type	Applicable Characteristics
NADBank Loan	For public and private entities, including public-private partnerships, to support the implementation of water infrastructure projects. Financing may be provided as a direct loan or through participation in municipal bond issuances and will follow all applicable regulations such as Mexico's Financial Discipline Law for States and Municipalities. Other financing instruments, such as quasi-equity or subordinated loans, are not available for the purposes of the WIP.
CAP grant	For disadvantaged or underserved communities, with strong financial need, limited debt capacity, and no/low credit rating. Any project receiving a BEIF grant is not eligible for a CAP grant.
BEIF grant	For communities with a strong financial need and selected through the applicable prioritization process based on existing conditions impacting environment and human health. Project selection is authorized by EPA Regional Offices and CONAGUA, as appropriate, and BEIF grants are approved by EPA through a formal deal sheet process that is based on recommendations by NADBank considering an affordability and debt capacity analysis.
Blended financing	Financial need and limited credit capacity; subsidy required to achieve affordable rate and repayment structure for a high impact project; operational performance standards may be applied.

An affordable financial structure for a project may require one or more of these financing options, along with funding participation from external programs. Additionally, new financial products may be introduced over time and included for approval under the WIP given similar eligibility requirements can be met.

Program Procedures

With the approval of this program, the Board will programmatically certify projects meeting the eligibility requirements of the WIP and will approve financing for such projects that will be funded through the CAP or a NADBank loan. NADBank will then be authorized to award financing based on its internal due-diligence and approval process, and upon ratification of the Managing Director and Chief Environmental Officer. In the case of BEIF resources, EPA will continue to authorize the use of funds through the project deal sheet approval process, and such funds will not be included as part of the financing approved by the Board under the WIP.

Each financing request would be subject to NADBank's due diligence and internal approval processes as follows:

- 1) **Financing Commitments.** Financing commitments for projects approved under the Program are subject to (a) the per-project loan limitation established herein, (b) the Bank's applicable loan policies, and (c) the per-project grant limitation and program requirements established by the Board for the CAP. Management will report to the Board on the cumulative approval of financing through WIP on a quarterly basis.

- 2) Loan Limitation Compliance. All loan financing proposals must comply with the following limits:
- i. The tenor will not exceed 30 years, providing an opportunity to monitor operational performance for the expected useful life of the financed infrastructure.
 - ii. The principal amount per project will not exceed US\$25 million for loans denominated in U.S. dollars and MX500 million pesos for loans denominated in Mexican pesos.
 - iii. Borrowers will have access to loan proceeds during a maximum disbursement period of three (3) years from financial closing.
- 3) Grant Program Compliance. All grant financing proposals must comply with the program requirements as determined by the NADBank Board for CAP and by EPA for BEIF.
- 4) Board Ex-ante notification. Management shall give notice to the Board as soon as the initial evaluation by NADBank indicates that a potential project appears to be capable of meeting WIP eligibility criteria, subject to completion of the due-diligence process.

NADBank's standard due-diligence process will proceed in parallel with the notification period. Any comments received from the Board within 15 days of notification will be considered and addressed during the due-diligence process. If the Board determines that a project is not eligible under the WIP, the project shall be referred to the Board for individual consideration through the Bank's standard certification and financing approval process.

- 5) NADBank Due-diligence Process. Based on its established standards and practices to ensure projects are eligible for NADBank financing and comply, or able to comply, with the certification criteria and NADBank loan policies, the Bank will review each financing request taking into consideration:
- i. a technical and environmental review of the project, including the population that will benefit, the use of appropriate technologies and the operational performance and O&M practices of the utility;
 - ii. verification that all required permits and environmental clearance (including those related to the U.S. National Environmental Policy Act (NEPA) in the case of BEIF) will be obtained prior to disbursement.
 - iii. a comprehensive assessment of the sponsor and borrower, including performance risk and their capacity to execute the project and contract and repay a loan, as applicable;
 - iv. a legal review of the sponsor, borrower and guarantor, as applicable, legal authorizations, and the financing package; and
 - v. a financial and tax advisory review, including the business or operating plan and financial and tax model assumptions.

- 6) Project Ratification. The Managing Director and Chief Environmental Officer must ratify each project financing approval upon successful completion of the due-diligence process, confirming the proposed transaction's compliance with all elements of the applicable program guidelines.
- 7) Financing Execution. After project approval, the Bank can proceed to close financing with the project sponsor under the approved terms and conditions, which shall include compliance with all related program requirements and operational performance expectations as a covenant under the loan and/or grant agreement(s).
- 8) Report to Board. Management will report to the Board any project ratified, including a description of the project, compliance with all necessary permits and environmental authorizations prior to disbursement, expected environmental and community benefits, any unique requirements included in the funding agreements for operational strengthening and general terms of the financing within 15 business days of such ratification.

3 Program Evaluation and Reporting

To identify and report the environmental benefits expected from each project, a tailored results matrix will be developed based on the pertinent indicators presented in Appendix 1.

The project sponsor will commit to providing information on the use of the grant and/or loan proceeds in order to identify the environmental benefits. NADBank and the project 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. A closeout report summarizing the results will be produced at the end of the implementation period.

NADBank Management will provide a general assessment of the program and its estimated environmental benefits as part of the NADBank quarterly status report.

4 Public Consultation and Request for Board Authorization

The Program completed a public comment period in accordance with the Charter and Bank procedures prior to its approval through Resolution 2025-1. Because Management is proposing specific amendments to the Program's financing parameters, including its permanent authorization and an increase to the per-project loan limit, the Bank has released the updated program guidelines for an additional thirty-day (30-day) public comment period. Management will compile and report to the Board on any comments received during the consultation period. At the conclusion of the public comment period and subject to consideration of any comments received, Management will request that the Board:

1. approve the amendments to the Program.
2. certify and approve for financing projects meeting the eligibility requirements of the Program, as amended herein; and

3. approve financing commitments for projects certified under the Program, subject to (a) the per-project loan limitation established herein, (b) the Bank's applicable loan policies, and (c) the per-project grant limitation and program requirements established by the Board for the CAP, with quarterly reporting on cumulative Program utilization; and

Based on the assessment of the pilot phase, Management recommends that the Program be authorized on a permanent basis, effective January 1, 2027.

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Annex 1: Types of Eligible Investments and Indicators

Category	Infrastructure Types	Indicators (not exhaustive)
Water resources management	Rehabilitation and construction of new facilities to diversify, increase resilience, or make more efficient use of municipal and agricultural water supplies, such as water conservation, treated wastewater reuse and development of alternative water sources	▪ New or improved water supply capacity (m³/year) ▪ Water conserved (m³/year) ▪ Water reused (m³/year) ▪ Diversification of water resources (concentration index)
Drinking water treatment and distribution	Rehabilitation and construction of new drinking water treatment, transmission, storage, distribution, and metering infrastructure	▪ Population benefitted (quantity) ▪ New connections (quantity) ▪ Volume of treated drinking water (lps, m³/year) ▪ New or improved water distribution infrastructure (pipelines [km]; pump station capacity [lps]; storage capacity [m³]) ▪ Water losses eliminated (m³/year) ▪ Energy efficiency (MWh/year; tons/year of emissions avoided)
Wastewater collection and treatment	Rehabilitation and construction of wastewater collection, conveyance, treatment and sludge management facilities, installation of new sanitary sewer connections, on-site systems	▪ Population benefitted (quantity) ▪ New connections (quantity) ▪ Volume of treated wastewater (lps, m³/year) ▪ New or improved wastewater collection infrastructure (pipelines [km]; pump station capacity [lps]) ▪ Wastewater discharges eliminated (m³/year) ▪ Volume of sludge treated (ton/year) ▪ Energy efficiency (MWh/year; tons/year of emissions avoided)

**DRAFT BOARD DOCUMENT BD 2026-XX
WATER INVESTMENT PROGRAM PROPOSAL**

Category	Infrastructure Types	Indicators (not exhaustive)
Stormwater management	Piped systems, retention basins, culverts, canals, berms, erosion control, flow velocity control, green infrastructure	▪ Houses protected from flooding (quantity) ▪ Area protected from flooding (hectares) ▪ Volume of storage capacity [m³] ▪ Stormwater protection infrastructure (levees/canals [km], culverts [km, quantity], basins [m³, quantity], pump stations [m³/day])
Ancillary works to above sectors	Operational equipment (e.g., backup pumps and generators, sediment removal equipment, etc.), alternative energy source, projects to increase operational efficiency (energy efficiency, telemetry and technology to improve commercial systems), system/source security	▪ Energy efficiency [MWh/year] ▪ Water conservation [m³/year] ▪ Cost savings [USD/MXP]