



PROJECT SAFEGUARDS & PERFORMANCE RISK POLICY

**Approved
Board of Directors Meeting
May 13, 2026**



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NORTH AMERICAN DEVELOPMENT BANK

PROJECT SAFEGUARDS & PERFORMANCE RISK POLICY

I. Introduction

1. In accordance with Article I, Section 1(a) of Chapter II of its Charter, the purpose of the North American Development Bank (NADBank) is to provide financing for environmental infrastructure projects located in the U.S.-Mexico border region. The Charter further establishes that NADBank, as an overarching purpose, will help to preserve, protect, and enhance the environment of the U.S.-Mexico border region in order to advance the well-being of the people of the United States and Mexico. This Policy will be implemented by the Bank in a consistent manner with its stated mandate.

2. In fulfilling its mandate, NADBank is committed to incorporating safeguards and performance measures into its project evaluation, approval, and monitoring processes, to maximize their environmental benefits, ensure access to such benefits, and reduce and effectively manage associated risks.

3. NADBank evaluates anticipated projects taking into consideration their potential impacts and benefits on the environment and communities, as well as potential financial risks to the Bank.

4. As established in Article I, Section 2 of Chapter II of its Charter, the Bank, in carrying out its functions, shall cooperate as appropriate with national and international institutions and with private sources supplying investment capital.

II. Policy Objective

5. This Policy addresses NADBank's approach (i) to managing project performance and risks throughout the lifecycle of a project, and (ii) to providing communities, clients and stakeholders appropriate information regarding NADBank's requirements for the evaluation of prospective projects and the monitoring of financed projects.

6. To accomplish the objectives of this Policy, NADBank will implement:

- a. A ***Performance Risk Management System (PRMS)*** to identify, evaluate and manage, throughout the entire project lifecycle, the impacts caused by NADBank prospective and financed projects,¹ including, as applicable, risks related to water resources, air quality, and public health.

¹ Consistent with the NADBank charter, in this policy document the term "community" refers to community and social considerations related to a NADBank-supported project, such as workplace conditions and safety, economic development and employment, community engagement, neighborhood impacts, and/or customers treatment and safety.

- b. **Performance Risk Scoring** to assess risks that could affect the financial and operational performance of the projects financed and the risk profile of the Bank's portfolio; and
- c. A transparent and timely process for the **Disclosure** of performance risks and opportunities, in accordance with accepted reporting standards, to enhance communications and outreach procedures with the Board of Directors, stakeholders and the public.

III. Safeguards and Performance Commitments

7. NADBank affirms that to manage project risks efficiently, clear processes are needed to identify, assess, mitigate, and monitor such risks. In this respect, NADBank will conduct a performance risk assessment as an integral part of its due diligence and evaluation process of each project considered for financing prior to final approval. In addition, NADBank will monitor project risks during project implementation and work with the client to address problems that may arise.

8. NADBank, in collaboration with its clients, will carry out environmental and community risk assessment. The depth of this assessment will be commensurate with the characteristics and scale of each project and with its identified level of environmental and community risks.

9. NADBank will review each project for compliance with all applicable national, state and local laws and regulations, and will include covenants in its financing agreements, as appropriate, to ensure compliance with all mitigation actions or other requirements arising from the risk review and permitting process under applicable law. NADBank will monitor the project and provide guidance as needed during project implementation.

10. NADBank is committed to respecting legally recognized rights in its financed projects.² NADBank will require clients to respect individuals' rights, avoid infringement on the rights of others, and address risks to and impacts that could jeopardize rights in the projects it finances. The Bank will promote fair treatment, non-discriminatory access, and safe conditions for workers and communities in accordance with the applicable legal framework of each country.

11. NADBank is committed to preventing illegal discrimination in its operations. NADBank will work with its clients to identify potential discrimination and develop mitigation measures. NADBank will work with its clients to adopt measures to prevent and address any form of violence or harassment, including sexual exploitation, abuse, and harassment.

12. Consistent with its Charter mandate of helping advance infrastructure investments that help preserve, protect and enhance the environment of the border region

² For the purposes of this policy, NADBank will be guided by standards recognized by the United States or Mexico on their respective sides of the border.

between the United States and Mexico, NADBank is committed to aligning its operations with the respective environmental policy goals and regulations of each country.

13. NADBank will screen and categorize the performance risks of the projects it finances and will assist sponsors in identifying appropriate ways to assess such risks and impacts and develop appropriate risk mitigation measures, as part of the risk assessment and impact mitigation process.

14. NADBank is committed to investing in projects that address the environmental infrastructure needs of communities in the border region. To this end, NADBank commits to undertaking any necessary consultations so that communities understand the anticipated benefits and potential risks of the project and can provide their input. These consultations will be planned and carried out in a manner commensurate with project characteristics and level of risk.

15. NADBank is committed to the principles of transparency, accountability, stakeholder engagement and public involvement in decision making through meaningful consultations. Proportionate to the nature, scale and the potential environmental and community risks and impacts of the project, NADBank will require that its projects and clients comply with robust public information and consultation practices, as well as identify stakeholders potentially affected by and/or interested in projects.³

16. NADBank will not knowingly finance, directly or indirectly, any project or asset associated with activities on its Exclusion List (see Annex).

17. To ensure the proper implementation of this Policy, NADBank will commit the necessary resources and personnel for capacity building, training and continuous improvement of processes and tools. NADBank shall strive to provide technical assistance and capacity building for local public borrowers and utilities.

IV. Scope

18. This Policy applies to all infrastructure financing activities carried out by NADBank, including: (i) direct lending to private and public sector sponsors; (ii) lending to financial intermediaries (FIs); and (iii) grants.

19. In the case of investments through FIs, NADBank will provide resources and capacity for them to fund environmental projects or sub-projects. This means that FIs assume responsibility for the application of this Policy to the sub-projects financed. NADBank will assess the capability of the FI to manage project risks; work with the FI to identify and address gaps, if any, in this capability; and, if necessary, provide technical support to improve such capabilities. Accordingly, the Bank will use a risk-based approach that considers the size and complexity of the transaction, and the FI's operational capacity. The effectiveness of the FIs' risk management system will be monitored throughout the project cycle.

³ For more details, refer to Sections VII and VIII.

20. NADBank may provide technical assistance for project sponsors in accordance with its Technical Assistance Program, which may include studies and activities to strengthen a client's overall risk management capabilities.⁴

V. Performance Risk Management System (PRMS)

21. The purpose of the PRMS is to identify, assess and manage the risks that may arise from the implementation of a project financed by NADBank, as well as to identify and recommend appropriate mitigation measures. In doing so, NADBank strives to minimize any adverse impacts on the environment and populations in the surrounding communities for the entire life cycle of infrastructure projects.

22. The PRMS is applied to all infrastructure financing activities carried out by the Bank, including direct loans, loans to financial intermediaries and grants. In the case of financial intermediaries, NADBank will assess their capabilities to manage project risks; will work closely with them to identify and address gaps, if any, in this capability; and will provide technical support to improve such capabilities when necessary.

23. NADBank's PRMS is based on the Bank's operating environment and project types, reflecting internationally recognized risk standards. The PRMS methodology will be updated based on feedback from its application and innovations in other recognized standards.

24. The PRMS is fully integrated into the Bank's due-diligence process prior to the approval and disbursement of a loan or grant and establishes controls for proper supervision during the entire project life cycle. The PRMS includes:

- a. Procedures for the Bank to screen projects and assign risk categories and differentiate between direct financing to projects and those to financial intermediaries. The categorization will reflect the risk level of several project-specific aspects, such as project type and scale, site location and condition, and specific local requirements.
- b. A set of standard due-diligence tools will be used by the Bank to confirm that (a) the client has identified potential key risks and impacts related to the project; (b) effective measures will be undertaken by the client to avoid, minimize, mitigate, or compensate for the adverse impacts; (c) the client has the necessary capacity and track record to manage these risks; and (d) an Action Plan has been developed and will be incorporated into the contractual agreements to ensure that necessary mitigation measures and regulatory requirements are met during project implementation. The elements of the due diligence process will include, at a minimum:
 - Review of compliance with applicable laws and regulations, including environmental clearance documents.
 - An assessment of potential impacts and performance risks conducted by NADBank. Although NADBank is responsible for performing this

⁴ Technical assistance is not a form of infrastructure financing.

assessment, the clients are expected to collaborate with the Bank to identify and manage risks, develop and implement necessary actions, and cooperate with the Bank in its supervision and oversight.

- Review of sponsor's past and present record in managing project performance risks.
 - Site visit, if applicable, based on assessed project risk.
 - Development of mitigation plan, if necessary, depending on the identified risks and including indicators, which will be monitored during the project implementation and operation phases.
 - Public consultation, through which NADBank will promote timely information and participation, proportionate to the project's risk level, ensuring accessible feedback channels.
- c. Monitoring of due-diligence documentation and recordkeeping requirements for all projects during the implementation and operations phases.
 - d. Grievance redress mechanisms at both an institutional and local level related to the PRMS risks and impacts of the project.
 - e. Clear definition of roles and responsibilities integrated into NADBank's existing loan and grant management procedures.
 - f. Procedures for reviewing and continuously improving the PRMS.

VI. Performance Risk Scoring

25. In addition to assessing the potential risks of the projects on the environment and the communities through the PRMS, NADBank will assess potential risks that may impact a project's execution and financial performance and assign a Performance Risk Score to each project.

26. A Performance Risk Score will be assigned to direct loans, financing through FIs and grants. Furthermore, individual project risk scores will be aggregated to assign a score at the portfolio level.

27. The project risk scoring methodology is based on recognized standards in the U.S. and Mexico and adapted to NADBank's current operating environment and to the sectors and industries the NADBank serves. NADBank may refine the methodology as needed to strengthen its assessment of projects.

28. Risk scores are assigned to each project on a numeric rating scale (1 to 5), with "1" indicating a very low risk and "5" a very high risk to the project.

29. The risk evaluation takes into consideration the following variables:⁵

- *Environmental*: Risks arising from extreme weather events, waste & pollution, and water & land management.⁶
- *Community*: labor practices and workforce management, safety management, local demographic & market trends, customer & community relations.
- *Governance*: Management of legal and regulatory environment risk.

30. Each of the variables above are evaluated in terms of: (1) their relevance to the project analyzed, (2) the level of project exposure to such risks and (3) the mechanisms that the project has or could implement to mitigate its exposure to each type of risk.

31. The combined evaluation of these three aspects (relevance, exposure, and mitigation) results in Risk Scores assigned to each variable, which are then aggregated into a single Performance Risk Score for the project.

32. In addition to a score at the project level, a risk score will be developed at the portfolio level. NADBank will monitor and supervise Risk scores throughout the project life cycle and update as new information becomes available.

VII. Disclosure

33. Transparency and accountability are core values of NADBank. The Bank is committed to publishing a report, as part of its Annual Report, that provides the environmental and community benefits of its projects, and an assessment of the project risks and opportunities the institution faces. The Annual Report will be publicly available on the NADBank website.

34. The disclosure of potential performance risks across relevant categories will also be included in the Annual Report. Such report will include aggregate indicators on environmental, community and institutional performance results, subject to confidentiality of information.

35. NADBank will keep the Board of Directors informed about risks relating to specific projects, as well as specific findings and mitigation actions derived from the PRMS or Risk Scoring analysis.

36. NADBank has in place Policies regarding Disclosure and Confidentiality and Public Notice Policies that establish requirements for public access to information regarding projects being considered by the Board of Directors for certification and financing.

⁵ These risk categories align with commonly used terminology and have been adapted to the NADBank mandate.

⁶ Its Charter requires that NADBank, in making certifications, give preference to environmental infrastructure projects related to water pollution, wastewater treatment, water conservation, municipal solid waste, and related matters. The foregoing shall also recognize projects located in the border region that have significant environmental effects.

37. NADBank will disclose this Policy on its website, alongside the Policies regarding Disclosure and Confidentiality, and Public Notice Policies.

VIII. Stakeholder Engagement and Grievance Policies

38. Consistent with its Charter, NADBank has in place Public Notice Policies that establish the requirements and procedures for ensuring public availability of project information, providing notice of public meetings of the Board of Directors, and providing notice of projects that will be considered for approval and financing. Under such policies, every project is published for a public comment period before it can formally be considered for approval.

39. NADBank has also adopted two policies related to grievances, as required under its Charter. The Policy Regarding Complaints from Groups Affected by Projects defines procedures whereby the Board of Directors could receive complaints from groups affected by projects that the NADBank has assisted or recommended for certification. The Policy for Independent Assessments establishes procedures whereby the Board of Directors could obtain independent assessments as to whether the terms of Chapter III of the NADBank's Charter, or the procedures established by the Board of Directors pursuant to such chapter, have been observed.

40. Additionally, to ensure that grievances from stakeholders are properly managed and addressed, NADBank's website will provide specific information regarding: 1) a Transparency and Accountability section, that includes references to existing policies, links for disclosing public information and a means to submit complaints related to projects and activities supported by the Bank; and 2) an Integrity section, specifying the practices towards which the Bank has zero tolerance and provide the means to submit complaints or grievances against employees of the Bank or related third parties working with Bank resources.

IX. Training on the Policy

41. NADBank will ensure that all employees have received appropriate training on the requirements of this Policy, as well as general project risk awareness as part of its ongoing training program. Relevant Bank personnel in charge of project evaluation and who regularly deal with specific policy issues will receive specific training regarding current non-financial project risk management practices and methodologies.

42. NADBank will disclose this Policy to clients and provide them with support, as needed, to effectively comply with the Policy's requirements. Any support provided will be aligned with current industry standards, as well as the internal tools and procedures of the Bank.

X. Policy Implementation and Responsibilities

43. By approving this Policy, the NADBank Board of Directors recognizes the importance of project performance safeguards and the management of potential risks in NADBank's operations.

44. The execution of this policy is the responsibility of the NADBank management team with the leadership of the Chief Environmental Officer.

45. To ensure that the directions described in this Policy are implemented, NADBank will allocate responsibilities and appropriate resources for effective implementation of this Policy.

46. Implementation of this Policy will require the direct collaboration of various areas of the Bank, including those related to project origination and evaluation, risk management and communications. All procedures required to comply with this policy will be integrated into the appropriate tools and operating manuals of the Bank, and specific manuals depicting the general processes shall be available.

Annex: NADBank Exclusion List

Recognizing that several economic activities are inconsistent with its mandate and the principles established in this policy, NADBank's evaluation process will reasonably assure that it does not finance directly, or indirectly through financial intermediaries, a project or asset in the following activities:

- a) Industries for arms, tobacco, or gambling
- b) The production or trade of any product or activity that is considered illegal according to national laws or regulations or international agreements and conventions
- c) Deforestation, forest degradation, or production or trade of forestry products from unmanaged forests
- d) Activities in protected areas.
- e) Activities that violate the rights of indigenous peoples recognized under international treaties ratified by the United States or Mexico.
- f) Companies that exhibit unethical behavior, particularly in the context of abuses of the environment, legal rights, or illegal activities
- g) Production or trade in unbonded asbestos fibers
- h) Production or activities involving forced labor or harmful or exploitative forms of child labor

The Board of Directors may revise this list..

References

NADBank (2018) Policies regarding Disclosure and Confidentiality. Available at [nadb-confidentiality-policy-\(eng\).pdf](#)

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