



ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY

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Glossary

EID	Environmental Information Document
ESG	Environmental, social and governance
ESRMS	Environmental and Social Risk Management System
E&S	Environmental and social
FI	Financial intermediary
GHG	Greenhouse gases
IFC	International Finance Corporation
MIA	Manifestación de impacto ambiental [Environmental impact statement]
NADBank	North American Development Bank
NDCs	Nationally Determined Contributions
SASB	Sustainability Accounting Standards Board
SDG	UN sustainable development goals
SEAH	Sexual exploitation, abuse and harassment
TCFD	Task Force on Climate-Related Financial Disclosures
UN	United Nations

NORTH AMERICAN DEVELOPMENT BANK
ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY

I. Introduction

1. The mandate of the North American Development Bank (NADBank) is to help preserve, protect, and enhance the environment of the U.S.-Mexico border region by supporting the development of environmental infrastructure projects and providing financing for their implementation.

2. In fulfilling its mandate, NADBank is committed to incorporating environmental, social and governance (ESG) principles into its project evaluation, approval, and monitoring processes, to maximize their environmental benefits, ensure equitable access to such benefits, and reduce and effectively manage their risks.

3. NADBank evaluates ESG risks through a lens of double materiality, taking into consideration the potential impacts of its projects on the environment and communities, as well as the potential ESG risks on its investments and the financial performance of the projects financed.

II. Policy Objective

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

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

- a. An ***Environmental and Social Risk Management System (ESRMS)*** to identify, evaluate and manage, throughout the entire project lifecycle, the potential environmental and social (E&S) impacts caused by NADBank prospective and financed projects.
- b. ***ESG Risk Scoring*** to assess ESG 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 ESG and climate-related 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. Environmental, Social and Governance Commitments

6. NADBank affirms that to manage E&S risks efficiently, clear processes are needed to identify, assess, mitigate, and monitor such risks. In this respect, NADBank will conduct an E&S 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 ESG risks during project implementation and work with the client to address problems that may arise.

7. NADBank, in collaboration with its clients, will apply the IFC Performance Standards to carry out its E&S assessment. The depth of this assessment will be commensurate with the characteristics and scale of each project and with its identified level of E&S risks.

8. 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 E&S review and permitting process under applicable law. NADBank will monitor the project and provide guidance as needed during project implementation.

9. NADBank is committed to respecting human rights in its financed projects.¹ NADBank will require clients to respect human rights, avoid infringement on the human rights of others, and address risks to and impacts that could jeopardize human rights in the projects it finances.

10. NADBank is committed to preventing gender discrimination and to promoting gender equality in its operations.² NADBank will work with its clients to identify potential adverse impacts related to gender equality 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 (SEAH) and gender-based violence, intimidation or exploitation.

11. NADBank is committed to aligning its operations with the goals of the Paris Agreement on climate change. NADBank will support the governments of the United States and Mexico in meeting their Nationally Determined Contribution (NDC) commitments under the Paris Agreement, particularly as it relates to the mobilization of capital for mitigation and adaptation measures. Within two years of approval of this Policy, NADBank will establish specific targets for climate-resilient actions, and its progress towards achieving those targets will be tracked and reported using appropriate methods, metrics and disclosure mechanisms that are an integral part of this ESG Policy.

12. NADBank recognizes that the U.S.-Mexico border region is vulnerable to the adverse effects of climate change and that such effects may disproportionately affect

¹ For the purposes of this policy, NADBank will be guided by international human rights standards recognized by the United States and Mexico.

² For more details, refer to the NADBank Gender Equality and Inclusion Policy.

marginalized communities and groups and individuals in vulnerable situations.³ Consequently, NADBank will continue to invest in projects that mitigate GHG emissions and/or help communities adapt to the effects of climate change.

13. NADBank will screen and categorize the climate-related 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 E&S assessment and impact mitigation process. These steps will consider the potential adverse impacts of climate change on groups and individuals in vulnerable situations.

14. NADBank is committed to investing in projects that address the E&S needs of communities in the border region. To this end, NADBank commits to ensure meaningful consultations free of fear of reprisals to enhance the ability of communities to make informed decisions and take positive actions. This consultation will be planned and carried out in a manner commensurate with a project's 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 E&S 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.⁴

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.

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 ESG 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. The effectiveness of the FIs' ESG management will be monitored throughout the project cycle.

³ In the IFC Performance Standards they are referred to "as disadvantaged and vulnerable groups and individuals."

⁴ 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 E&S studies and activities to strengthen a client's E&S risk management capabilities.⁵

V. Environmental and Social Risk Management System (ESRMS)

21. The purpose of the ESRMS is to identify, assess and manage the E&S 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 population in the surrounding communities for the entire life cycle of infrastructure projects.

22. The ESRMS 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 ESG 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 ESRMS is based on IFC performance standards and is adapted to the Bank's operating environment and project types. The ERMS methodology will be updated in accordance with updates to the IFC standards.

24. The ESRMS 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 ESRMS includes:

- a. Procedures for the Bank to screen projects and assign an E&S risk category, aligned with the IFC standards, and will differentiate between direct financing to projects and those to financial intermediaries. The risk categorization will be the same or comparable to the IFC standards. 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 E&S due-diligence tools will be used by the Bank to confirm that (a) the client has identified potential key E&S 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 E&S risks and impacts; and (d) an Environmental and Social 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 E&S due-diligence process will include, at a minimum:
 - Review of compliance with applicable laws and regulations, including environmental clearance documents.
 - An E&S assessment, conducted by NADBank using the IFC Performance Standards as a basis. Although NADBank is responsible for performing the

⁵ Technical assistance is not a form of infrastructure financing.

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

- Gender equality screening and an environmental justice screening, which will be performed as part of the E&S assessment.
 - Review of sponsor’s past and present record in managing E&S 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.
- c. Monitoring of E&S checklists 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 E&S 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 ESRMS.

VI. ESG Risk Scoring

25. In addition to assessing the potential risks of the projects on the environment and the communities through the ESRMS, NADBank will assess potential risks that may impact a project’s financial performance stemming from ESG factors and assign an ESG Risk Score to each project. In combination with the ESRMS, the ESG Risk Scoring provides a “double materiality” perspective to ESG risk management.

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

27. The ESG risk scoring methodology is based on the Sustainability Accounting Standards Board (SASB) Standards and adapted to NADBank’s operating environment in order to identify the environmental, social and governance issues most relevant to financial performance in several sectors and industries.⁶ NADB may refine the methodology as international standards evolve.

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

⁶ Source: SASB Standards, <http://materiality.sasb.org>

29. The ESG risk evaluation takes into consideration the following variables:⁷

- *Environmental*: Physical climate-related risks, carbon transition risks, waste & pollution, water & land management.
- *Social*: Human capital, safety management, demographic & societal trends, customer & community relations.
- *Governance*: Management of legal & regulatory environment, E&S risk management.

30. Each of the ten variables above is 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 ESG variable, which are then aggregated into E, S and G pillars, and finally consolidated in a single ESG Score for the project.

32. In addition to a score at the project level, an ESG Risk score will be developed at the portfolio level to reflect aggregated ESG risks and opportunities. NADBank will monitor and supervise ESG 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 sustainability report, as part of its Annual Report, that provides the E&S benefits of its projects, and an assessment of the ESG risks and opportunities the institution faces. The Annual Report will be publicly available on NADBank's website.

34. The disclosure of potential ESG and climate-related financial risks will also be included in the Annual Report, aligned with international standards such as the Task Force on Climate-related Financial Disclosures (TCFD).⁸

35. NADBank will keep the Board of Directors informed about ESG risks and impacts relating to specific projects, as well as specific findings and mitigations actions derived from the ERSMS or ESG 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 for certification and financing.

⁷ These ESG categories align with risk groups established in widely accepted classification standards published by entities such as Sustainability Accounting Standards, Global Reporting Initiative and UN Principles of Responsible Investment.

⁸ TCFD was established in 2016 by the G20's Financial Stability Board to better understand and promote disclosure of climate-related financial risks. In 2017, the TCFD published recommendations for the voluntary disclosure of such risks for use by companies and financial institutions in providing information to investors, lenders, insurers and other stakeholders.

37. NADBank will disclose this ESG 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 ESG Policy

41. NADBank will ensure that all employees have received appropriate training on the requirements of this Policy, as well as general ESG awareness as part of its ongoing training program. Relevant Bank personnel in charge of project evaluation and who regularly deal with specific E&S issues will receive specific training regarding current ESG 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 ESG considerations and the management of 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 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 of the ESRMS and ESG scoring shall be available.

Transitional Provision

47. NADBank will develop the corresponding manuals, process capabilities and training within a year following approval of this Policy.

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, any project or asset associated with the following activities:

- a) Exploration and production of fossil fuels
- b) New energy generation capacity based on burning fossil fuels
- c) Construction of rail infrastructure solely to transport fossil fuels
- d) Industries for alcohol, arms, tobacco or gambling
- e) The production or trade of any product or activity that is considered illegal according to national laws or regulations or international agreements and conventions
- f) Deforestation, forest degradation, or production or trade of forestry products from unmanaged forests
- g) Activities in protected areas.
- h) Activities that violate the rights of indigenous peoples recognized under international human rights treaties ratified by the United States and Mexico.
- i) Companies that exhibit unethical behavior, particularly in the context of abuses of the environment, human rights, or illegal activities
- j) Production or trade in radioactive materials
- k) Production or trade in unbonded asbestos fibers
- l) Production or activities involving forced labor or harmful or exploitative forms of child labor

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Sustainability Accounting Standards Board (no date) <https://www.sasb.org>

Task Force on Climate-Related Disclosures (no date) <https://www.fsb-tcf.org/>

United Nations Sustainable Development Goals (no date) <https://sdgs.un.org/goals>