



**NORTH AMERICAN
DEVELOPMENT BANK**

**LOAN POLICIES AND PROCEDURES
For Projects Certified by the
Border Environment Cooperation Commission**

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I. INTRODUCTION

The primary purpose of the North American Development Bank (NADB) is to provide financing for environmental infrastructure projects certified by the Border Environment Cooperation Commission (BECC). This document describes the basic policies and procedures that NADB follows in providing loan financing to BECC-certified projects.

The loan policies and procedures are based on the *Agreement between the Government of the United States of America and the Government of the United Mexican States Concerning the Establishment of a Border Environment Cooperation Commission and a North American Development Bank* (the "Charter"). The Charter also authorizes NADB to provide financing in the form of loan guaranties for BECC-certified projects and establishes basic requirements for such guaranties. NADB currently does not have an active guaranty program, but may issue additional guidelines for such financing in response to future client demand.

II. CHARTER PRINCIPLES

The Charter sets forth the following key principles governing NADB loan financing:

- **BECC Certification.** NADB may provide loans only to environmental infrastructure projects certified by BECC.
- **Board of Directors.** NADB and BECC have a common Board of Directors (the "Board of Directors"). The Board of Directors determines whether to certify a project and whether to authorize loan financing for that project.
- **Geographic limitations.** BECC may certify environmental infrastructure projects in the U.S.-Mexico border region, which is defined as the area in the United States that is within 100 kilometers of the international border between the U.S. and Mexico, and the area in Mexico that is within 300 kilometers of that border. BECC may also certify an environmental infrastructure project outside the border region if the Board of Directors determines that the project would remedy a transboundary environmental or health problem.
- **Specific projects.** NADB loans must be for specific projects.
- **Eligible Entities.** NADB may make loans to the federal governments of the United States or Mexico, to any agency or political subdivision of such governments, or to any entity in the territory of the United States or Mexico.
- **Private Sector.** NADB may make loans to supplement private investment when private capital is not available on reasonable terms and conditions. NADB encourages the investment of public and private capital in the environmental infrastructure projects for which it provides loan financing.

- **Technical Assistance.** A key NADB function is to provide technical and other assistance for the financing and implementation of BECC-certified environmental infrastructure projects. The guidance that NADB can provide to communities and project sponsors in designing and structuring projects is an important factor in the effectiveness of NADB's loan program. For information regarding NADB's technical assistance grant programs, the Institutional Development Cooperation Program (IDP) and the Project Development Program (PDP), see the NADB documents entitled "Institutional Development Cooperation Program Operating Guidelines" and "Project Development Program Operating Guidelines."

Other Charter provisions relevant to NADB's loan program will be incorporated throughout this document.

III. POLICIES FOR MAKING LOANS

The Charter authorizes NADB to make direct loans with its own funds. Since risk-sharing is fundamental to sound banking practices, NADB may require other participants to provide a portion of the funding required for a project in the form of grants, equity contributions, or other loans. Projects must have sufficient revenues, equity, grants or other financial support to ensure repayment of NADB's loan.

In addition to reducing NADB's share of risk in a project, success in attracting other sources of financing for NADB-financed projects maximizes NADB resources available for funding other projects and provides further evidence that a project has a demonstrable and reasonable assurance of repayment. NADB fully cooperates with other public and private sources of investment capital for the environmental infrastructure projects for which NADB provides loan financing.

The following are the basic policies for making loans that govern NADB participation in an environmental infrastructure project.

A. Eligible Borrowers.

1. NADB divides the eligible borrowers defined in the Charter into two categories, Governmental and Private Borrowers.

a) A "*Governmental Borrower*" is defined as:

- The federal government of the United States or Mexico;
- Any agency of the federal government of the United States or Mexico; or
- Any political subdivision of the government of the United States or Mexico, including states, municipalities or other governmental entities.

- b) A “*Private Borrower*” is defined as any other entity in the territory of Mexico or the United States, including corporations, financial institutions, investors, and non-governmental organizations.
- c) The borrower for a project being sponsored by a *public-private partnership* will be considered a Governmental Borrower if the project has been determined to be a “Community Environmental Infrastructure – Community-wide Impact” project for purposes of BECC certification. The benefit to any such borrower of any lower financing cost as a result of being considered a Governmental Borrower shall be passed on to the project community.

2. In addition, borrowers may be defined as “investment grade” or “non-investment grade” borrowers.

- a) An “*investment grade*” borrower is a borrower with a BBB- or above global local currency rating by Fitch or Standard & Poor’s, or Baa3 or above by Moody’s.
- b) A “*non-investment grade*” borrower is a borrower with a global local currency rating below the ratings noted above. The national scale ratings in Mexico that are regarded as equivalent to investment grade are ratings by Moody’s of Aa3.mx or above, by Standard & Poor’s of mxAA- or above, and by Fitch of AA-(mex) or above.

B. Project Location. Projects must be located in the U.S.-Mexico border region, which is defined as the area in the United States that is within 100 kilometers of the international border between the U.S. and Mexico, and the area in Mexico that is within 300 kilometers of that border. A project may be located outside the border region if the Board of Directors determines that the project would remedy a transboundary environmental or health problem.

C. BECC Certification. To be eligible for NADB loan financing, a project must be certified by BECC.

D. Eligible Sectors. The Charter defines environmental infrastructure projects that may be certified by BECC and financed by NADB as projects that will prevent, control or reduce environmental pollutants or contaminants, improve the drinking water supply, or protect flora and fauna so as to improve human health, promote sustainable development or contribute to a higher quality of life. The Charter gives preference to projects relating to water pollution, wastewater treatment, water conservation, municipal solid waste and related matters. The general characteristics of projects eligible for BECC certification and NADB financing are described, below:

ELIGIBLE SECTORS

1. Priority Sectors

- a) Water pollution projects encompass facilities for the collection, transportation, treatment, storage and distribution of potable water from the sources of supply (groundwater or surface water) to the user. Facilities include, but are not limited to, buildings, structures, equipment and other appurtenances for: the collection of surface water or groundwater supplies, storage facilities such as natural impoundments or reservoirs; transportation of water by aqueducts, whether open channel, pipelines, or tunnels; treatment systems necessary to meet potable water standards; distribution systems to meet the requirements for domestic, commercial, industrial and fire fighting purposes, including pipe systems and networks, pumping stations, storage facilities, fire hydrants, service connections, meters and other appurtenances; and storage, handling, treatment, recycling or reclamation systems for solids resulting from the treatment of water.
- b) Wastewater treatment projects encompass facilities for the collection, conveyance, treatment and disposal of wastewater and solids derived from the treatment of such wastewater. Wastewater is water carrying wastes from residential, commercial or industrial buildings that is a mixture of water and dissolved or suspended solids, liquids or gases. Facilities include, but are not limited to, buildings, structures, equipment, and other appurtenances for: sewers (gravity, pressure, or vacuum); interceptors; force mains; pumping and lift stations; treatment systems for primary, secondary or tertiary treatment of wastewater necessary to meet treatment standards; industrial and commercial pretreatment; storage, handling, treatment, recycling or reclamation of solids resulting from the treatment of wastewater; and systems for the disposal of effluent or solids.
- c) Municipal solid waste projects encompass facilities that are designed to collect or dispose of municipal solid waste (i.e., waste generated by households and commercial establishments, but excluding construction and hazardous wastes). A municipal solid waste project could include purchase of garbage collection and disposal equipment, closure of disposal sites, or facilities for transfer or disposal of municipal solid waste, or for recycling or recovering useful material from municipal solid waste.

ELIGIBLE SECTORS	
	d) <i>Related matters</i> has been defined by the Board of Directors to include: industrial and hazardous waste projects, water conservation projects, water and wastewater hookups for housing, and recycling and waste reduction projects.
2. Expanded Mandate Sectors	Additional types of projects that may qualify as environmental infrastructure projects under the Charter include, but are not limited to, projects that improve air quality, public transportation projects, projects related to clean and efficient energy, and projects that improve municipal planning, development and water management. In this document, these projects are referred to as “expanded mandate” projects.

E. Financial Terms and Conditions. The terms and conditions of a NADB loan will be appropriate to the project financed and structured with a view toward preserving NADB’s resources and credit rating.

1. General Principles. In considering a request for a loan, NADB must:

- Take into account the ability of the borrower to obtain the loan from private sources of financing on terms which, in the opinion of NADB, are reasonable for the borrower;
- Pay due regard to prospects that the borrower and its guarantor, if any, will be in a position to meet their obligations under the loan contract; and
- Establish that the rate of interest, other charges and the schedule for repayment of principal are appropriate for the purposes or project in question.

In approving a loan for a project, the Board of Directors must find that the project is economically/financially sound, and pay due regard to the prospects that the project will generate sufficient revenues, by user fees or otherwise, to be self-sustaining or that funds will be available from other sources to meet debt servicing obligations.

2. Lending Limits.

a. Single Obligor Limit (SOL). The maximum allowable credit exposure approved for a particular obligor—through loans to the obligor, loans guaranteed by the obligor, NADB’s guaranty program and/or any other applicable credit instrument, net of disbursements repaid and any

financing cancellations—is 15% of the NADB's available capital resources (defined below).

An additional 10% of the NADB's available capital resources will be allowed for an obligor whose loans above the 15% limit meet one of the following criteria:

i. The loan is fully secured by readily marketable collateral (defined below); or

ii. The loan payment mechanism is a "*fideicomiso*," a Mexican municipal or state irrevocable trust in which the payment and/or guaranty is funded by committed "*participaciones*"; or

iii. The loan is to a State or political subdivision and it constitutes a general obligation of the State or political subdivision (defined below).

Once a loan is approved, it remains approved even if the level of available capital resources falls such that the obligor exceeds the single obligor limit.

Available capital resources are defined as the Bank's funded, unimpaired paid-in capital, plus undesignated retained earnings, plus eligible callable capital, where "funded" means the paid-in capital that the shareholders have paid the Bank; "unimpaired" means that there is no existing obligation or designation associated with this paid-in capital (for example, it is not dedicated to community adjustment and investment purposes or to a specific program); and "eligible callable capital" is the callable capital that corresponds to current borrowings by the Bank.

Readily marketable collateral is defined as financial instruments and bullion that are salable under ordinary market conditions with reasonable promptness at a fair market value determined by quotations based upon actual transactions on an auction or similarly available daily bid and ask price market.

A general obligation of the State or political subdivision is defined as an obligation payable from a special fund or by an obligor not possessing general powers of taxation, when an obligor possessing general powers of taxation, including property taxation, has unconditionally promised to make payments into the fund or otherwise provide funds to cover all required payments on the obligation.

b. Maximum Loan per Project. NADB may provide a loan for up to 85% of the eligible costs of a project, depending on project risks and other characteristics. For projects with eligible costs up to and including \$1 million, NADB may provide a loan for up to 100% of the eligible costs of a project, depending on project risks and other characteristics. Actual loan amounts will be based on a borrower's ability

to afford a particular loan for a particular project, determined by NADB's standard credit analysis, taking into account factors such as current level of indebtedness, capacity to service current and proposed debt and credit quality.

3. Eligible Costs. NADB may provide loan financing to meet the costs and expenses related to the purposes of a loan. Project costs eligible for NADB loan financing may include the acquisition of land and any buildings thereon, site preparation and development, design, construction, reconstruction, rehabilitation, improvement, the acquisition of necessary machinery and equipment, legal, finance, and development costs, interest during construction, contingency or reserve funds, customs and other duties, and other incidental costs approved by NADB.

4 Form of Loan. Typically, a direct loan is evidenced by a loan agreement and attendant documentation entered into by NADB (or, for loans to Mexican public sector borrowers, NADB's Mexican entity, *Corporacion Financiera de America del Norte, S.A. de C.V. SOFOM, ENR* – "COFIDAN") and the borrower. In transactions involving certain Governmental Borrowers, NADB may make loans in the form of purchases of bonds issued by the relevant governmental body. Bond purchases may be the appropriate form of the loan in cases where market conditions permit the issuance of bonds or where there are multiple creditors whose rights are to be governed under a bond indenture. In such cases, NADB requires that the bond documentation evidencing the loan contain terms and conditions that protect NADB's interests in a manner comparable to the protections accorded NADB in its standard loan documents.

5. Maturities. NADB may offer loan maturities up to 25 years, depending on individual project requirements such as the ability of a community to afford the annual debt service. Grace periods for principal repayment are negotiable and may cover the anticipated project construction and start-up phase. Term structure must be appropriate to the type of project financed and generally consistent with market practice for such projects. In general, the total repayment term shall not exceed the useful life of the project.

6. Currency; Exchange Risk.

a. Borrowers in the United States. NADB loans to borrowers in the United States are contracted in U.S. dollars.

b. Borrowers in Mexico. NADB loans to borrowers in Mexico may be in Mexican pesos or U.S. dollars. For loans in pesos, unless the source of funding for the loan is also in pesos, a currency hedge must be obtained. For loans in dollars, NADB must be assured that the borrower will be able to generate the dollars when payment is due.

7. Interest Payments; Calculation of Interest Rates. Interest on outstanding balances will be payable on monthly, quarterly or semi-annual installment dates. Interest rates for particular loans will be established at loan closing, and will depend on the interest rate structure for which the project is

approved. NADB can offer market-rate loans, Low Interest Rate Lending Facility (LIRF) loans and loans for which the interest rate is subsidized through an NADB grant program. Loans to Private Borrowers will be at market rates. Loans to Governmental Borrowers may be at other interest rate structures noted below if the Government Borrower meets the applicable eligibility requirements.

a. Market-rate Loans. For market-rate loans, NADB will charge an interest rate, fixed or variable, that is composed of the following elements.

i. Base rate. NADB will charge a base interest rate related to the yield on U.S. Treasury securities or to the LIBOR rate, TIE rate, or any other U.S. dollar or Mexican peso rate related to the interest rate on borrowings by the Bank.

ii. Administrative margin. NADB will charge an administrative spread over the base rate to cover administrative costs, within the ranges indicated in the following table.

Loan Amount (US Dollars)	Administrative Spread (Basis points)
Less than \$5 million	100 – 150
\$5 million to \$17 million	60 – 150
More than \$17 million to \$50 million	40 – 150
More than \$50 million	25 – 150

iii. Risk exposure spread. This covers the risks associated with each loan and will be 0 to 400 basis points. The exposure spread will vary according to the creditworthiness of the borrower or guarantor in direct recourse transactions, or the creditworthiness of the project in limited recourse transactions.

iv. Paying points up front. In lieu of a portion of basis points of spread, a borrower may pay points up front, provided that the amount of basis points over the benchmark in the all-in interest cost of the loan, excluding any commitment fee, does not exceed 550 basis points.

b. Low Interest Rate Lending Facility (LIRF) Loans. LIRF loans are subject to the availability of LIRF funds. LIRF loans are available for projects in NADB's priority sectors. For a project to be eligible for a LIRF loan, the project sponsor must be a Governmental Borrower that is not rated as an investment-grade borrower, the project must be in a community (i) in the United States with median household income (MHI) at or below the average of the MHI of communities in the BECC/NADB U.S. border region or (ii) in Mexico with average household income at or below the average household income of communities in the BECC/ NADB Mexico border region, and NADB must determine through its standard financial analysis that the project requires a LIRF interest

rate. In addition, the project must be located either (a) within 100 km of the U.S.-Mexico boundary, in either the United States or Mexico or (b) in Mexico, between 100 km – 200 km of the U.S.-Mexico boundary. Total LIRF funding for projects located in Mexico between 100 km-200 km of the U.S.-Mexico boundary is limited to 25% of the total LIRF funding available. The maximum amount of LIRF loan that may be approved for a single project is \$16 million. Any loan amount exceeding \$16 million shall be at a NADB market rate. For LIRF loans, NADB will charge an interest rate that is composed of a base rate plus an administrative margin and a risk exposure spread.

i. *Base rate.* For LIRF loans with maturities of up to five years, the one-year consumer price index inflation forecast of the Philadelphia Federal Reserve Bank's (PFRB) Survey of Professional Forecasters (the "CPI") will serve as the base interest rate. For LIRF loans with terms of between five and ten years, the PFRB's ten-year CPI will serve as the base interest rate. PFRB updates these forecasts quarterly, and they are available on the Internet at: www.phil.frb.org/files/spf/cpie1.txt and www.phil.frb.org/files/spf/cpie10.txt, respectively. For LIRF loans with maturities longer than ten years, the base interest rate will be established by taking the ten-year inflation forecast and adding one basis point for each year beyond ten years.

ii. *Administrative margin.* NADB will charge 50 basis points over the base rate to cover the LIRF loan's administrative expenses.

iii. *Risk exposure spread.* This covers the risks associated with each LIRF loan and will be 30 to 75 basis points. The exposure spread will vary according to the creditworthiness of the borrower or guarantor in direct recourse transactions, or the creditworthiness of the project in limited recourse transactions.

c. Loans for which the Interest Rate Is Subsidized Through a NADB Grant Program. For these loans, NADB will determine an interest rate subject to the provisions of the applicable grant program. For these loans, the project sponsor and project must meet the eligibility and other requirements of the specific grant program.

8. Commitment Fee. The purpose of NADB's commitment fee is to compensate NADB for the opportunity cost of allocating resources for the exclusive use of particular borrowers.

a. Market-rate Loans. NADB will charge the borrower a commitment fee of three-quarters of one percent per annum of the undisbursed balance of the loan.

b. LIRF Loans and Loans for which the Interest Rate is Subsidized through a NADB Grant Program. NADB will charge the

borrower a commitment fee of one-quarter of one percent per annum of the undisbursed balance of the loan. In cases where loan amounts exceed LIRF or subsidized loan limits, the commitment fee for market-rate loans will apply to the market-rate portion of the loan.

c. Accrual. The commitment fee begins to accrue 30 days after the date of the first disbursement of a loan. For loans with scheduled disbursements for which the interest rate for each disbursement is set on the date of the disbursement (e.g., loans using FOAEM as an exchange rate hedge mechanism), the commitment fee will accrue on the undisbursed balance of disbursements that deviate from the scheduled dates or amounts.

9. Other Fees. NADB may charge other fees to reflect fees charged by other local lenders for similar loans.

10. Demonstrable and Reasonable Assurance of Repayment. All loans made by NADB must offer a demonstrable and reasonable assurance of repayment. To comply with this requirement, NADB must determine that demonstrable and reasonable assurance exists that the borrower will be able to repay the loan in accordance with the loan repayment schedule. Factors considered in making such a determination vary, depending upon the borrower and the nature and size of the project being financed, but generally relate to the capacity of the borrower and/or project to generate sufficient revenues through user fees or other dedicated sources of revenues to service its debt. Should NADB determine that a project's revenues or a borrower's financial position do not meet the requirement of demonstrable and reasonable assurance of repayment, additional security arrangements, guaranties or sources of repayment, or additional grant or equity support will be required so that the project complies with this requirement.

11. Security. Loans from NADB must be secured with project and/or borrower cash flows, which may take the form of user fees, dedicated taxes, earnings from the sale of project output, other project earnings, or other dedicated sources of revenue. NADB may also require borrowers to secure their loan with other project assets, including the following: a mortgage on fixed assets (land, plant, and other buildings), a mortgage on or security interest in movable assets (equipment, other business assets), a pledge of a project sponsor's share in the project, and the assignment of the sponsor's insurance policies and other contractual benefits. The value of the security must at all times be greater than the NADB loan outstanding. In order to ensure that the value of project security is properly maintained, NADB will inspect the security as frequently as it deems necessary.

12. Limited Recourse Financing. Limited recourse financing refers to a loan for which the primary sources of funds for repayment are the revenue derived from the operation of the project and the project's assets. NADB may provide limited recourse financing, provided that the project has a demonstrable and reasonable assurance of repayment from project cash flows and other project assets.

13. Recourse Financing. NADB will, where appropriate, require recourse to a project sponsor or guarantor if it determines that a loan's security provisions are insufficient to ensure that the loan has a demonstrable and reasonable assurance of repayment. In the case of a local or regional Governmental Borrower, such recourse may include:

- i. In the United States, general obligation financing, whereby a state, locality, or municipality is pledging its full faith and credit to repay the financial obligations. These obligations can typically call on tax revenues or general revenue sources to meet debt service requirements.
- ii. In Mexico, pledges of federal, state or local tax participations.
- iii. Establishment of a utility service district or enterprise fund, which could be designed to allow the project to draw on other sources of revenue in the service area.

14. Federal Guaranties. In the case of loans to Private Borrowers or to regional or local Governmental Borrowers, NADB may require that the federal government of the country in which the project is to be carried out, or a public institution or a similar agency of such federal government acceptable to NADB, guarantee the repayment of the principal and the payment of interest and other charges on a loan.

15. Other Guaranties. NADB must be protected against project performance and completion risks through appropriate guaranties. NADB may require limited or general guaranties from project sponsors, borrowers, equity investors, contractors, suppliers, operators or other relevant parties to guarantee technical, operational, or financial performance and completion of a project.

16. Debt Service Coverage Ratio (DSCR). The DSCR requirement ensures that sufficient cash flow is available to cover the required debt service. In principle, it is the ratio of the total available anticipated cash flow to the required debt service. A value over 1 provides a margin of security to NADB.

- a. **Definitions.** Except for Mexican loans using an irrevocable trust mechanism or mandate, the DSCR is defined as the Total Net Cash Flow divided by Total Fixed Obligations (Total Net Cash Flow/Total Fixed Obligations) of a project. "Total Net Cash Flow" is defined as the cash flow available after all operating, maintenance and capital expenditures. Cash flow from revenues should not include billed revenues, but actual cash collected. "Total Fixed Obligations" is defined as principal and interest on all debt plus any lease payments or other fixed obligations. For Mexican loans using an irrevocable trust mechanism or mandate, the DSCR shall be defined as the amount of funds placed periodically in the trust divided by the debt service for the same period on the total amount of the loans to which the trust or mandate applies.

b. Application. Except as noted below, a minimum DSCR of 1.2 will be required for all NADB loans.

i. For U.S. loans in the form of purchases of general obligation bonds guaranteed by a borrower's tax revenues, a minimum DSCR of 1.0 will be required.

ii. For Mexican loans using an irrevocable trust mechanism for which the payment and/or guarantee is funded by federal, state or local tax participations, a minimum DSCR of 1.0 will be required.

iii. For U.S. loans in the form of purchases of revenue bonds, a minimum DSCR of 1.2 generally will be required. In cases where a governmental lender is purchasing a portion of the revenue bonds as a co-financier of a project, and the DSCR required by that lender is less than 1.2, but at least 1.0, NADB may match the DSCR requirement of the co-financier when necessary to facilitate the co-financing relationship and when NADB's credit analysis supports the lower DSCR requirement.

17. Reserves.

a. General. Reserve requirements address two key objectives: mitigation of project risk and development of sound financial practices by NADB's borrowers. To these ends, NADB may require any or all of the following reserve funds in making a loan to a borrower:

- Debt service reserve (DSR) to meet debt payment obligations in situations when the borrower does not have available cash. The DSR provides a level of liquidity that will minimize default risks in situations that adversely affect borrower cash flows.
- Operations and maintenance reserve (OMR) to fund non-recurring operations and maintenance costs that might arise from catastrophic events.
- Repair and replacement reserve (RRR) to cover emergency repairs or replacements whose magnitude may surpass what is normally dealt with in the operational budget.

b. Reserve Requirements. NADB establishes reserve requirements on the basis of an analysis of a project's technical and financial risks. These elements determine reserve levels and the timeframe for funding them, within the standard parameters shown in the table, below.

STANDARD RESERVE PARAMETERS

Type of Project	Reserve Amount	Timeframe to Fund Reserves	De-Funding
Debt Service Reserve (DSR)			
U.S. municipal projects financed by utility or other municipal revenue (including revenue bonds)	6 months to 1 year of debt service.	Up to 30-60 months from first disbursement, respectively.	Upon loan payoff.
Mexico municipal projects financed by utility or other municipal revenue.	6 months to 1 year of debt service.	Up to 30-60 months from first disbursement, respectively.	Upon loan payoff.
Mexico state, municipal or utility projects with irrevocable trust payment and/or guaranty structure for which the payment and/or guaranty is funded by state, municipal or other utility revenue.	1 to 3 months of debt service.	Up to 30-60 months from first disbursement, respectively.	Upon loan payoff.
Mexico municipal projects financed by utility or other municipal revenue, backed by a tax pledge (participations)	2 to 3 months of debt service.	Up to 24 or 36 months from first disbursement, respectively.	Upon loan payoff.
Private sector projects	2 months-1 year of debt service.	Up to 12 months from first disbursement.	Upon loan payoff.
U.S. municipal projects backed with tax pledge (i.e., general obligation bonds)	No debt service reserve.		
Mexico municipal or utility projects with irrevocable state or municipal trust payment and guaranty structure for which the payment and/or guaranty is funded by federal <i>participaciones</i>	No debt service reserve.		
All other transactions not covered under the parameters described above.	To be recommended by Bank's Management based on the factors set forth in paragraph 17.c.		
Operations and Maintenance (O&M) Reserve			
All projects	Up to 3 months of O&M project budget, determined by NADB's Technical Services Department.	Up to 36 months from first disbursement.	Upon loan payoff.

Type of Project	Reserve Amount	Timeframe to Fund Reserves	De-Funding
Repair and Replacement Reserve (RRR)			
All projects	Up to 10% of project equipment value, determined by NADB's Technical Services Department.	Up to 48 months from first disbursement.	Upon loan payback.

With respect to the DSR, OMR and RRR requirements, the basis for the establishment of the reserve amounts shall be described in the financing proposal provided to the Board of Directors.

Reserves must remain funded until the NADB loan is fully re-paid. The borrower may then dispose of the reserves at its discretion; NADB, however, encourages maintenance of reserves beyond the life of the project to build and maintain the technical and financial capacity of the project and project sponsor.

c. Debt Service Reserve. Factors considered by NADB in establishing DSR requirements include:

- Quality of the guaranty provided and / or collateral pledged.
- Loan payment mechanism.
- Current available cash flows and reserves.
- Overall financial health of the borrower (financial ratios).
- Construction period and timeframe for the project to generate new cash flows in relation to the project debt amortization schedule.

Other factors that are reviewed in so far as they have an impact on the project include:

- Any existing loan covenants and debt service.
- Debt repayment profile (if any) and historical experience with creation of reserves.
- Customary requirements of other creditors in the same industry, geographic area and current market conditions.

The quality of the guaranty or collateral will substantially impact the level and timeframe for funding the debt service reserve.

d. Operations and Maintenance Reserve. Factors considered by NADB in establishing OMR requirements include:

- Budgeted project operations and maintenance costs.

- Historical and projected trends of project operations and maintenance costs.
- Adequacy of internal operational controls.
- Experience of the operations and maintenance management team.
- Risks associated with the type of project.
- Existing operations and maintenance reserves or reserves required in the past.
- Customary business practices in the industry / region.

The procedure for establishing an operations and maintenance reserve includes an inspection of revenues and expenses for recent years and identification of consistencies and trends. The analysis also considers the factors for revenue shortfall or extraordinary expenses associated with the type of system, such as water, wastewater or solid waste, to get a sense of the level of risk associated with the operation.

e. Repair and Replacement Reserve. Factors considered by NADB when establishing RRR requirements include:

- Value of project equipment subject to wear and tear and its expected useful life.
- Risks associated with the type of facility or project equipment.
- Adequacy of internal operational controls.
- Existing RRR or reserves required in the past.
- Customary business practices in the industry / region.

The type of equipment or installations will have an impact on the amount and timing of establishing the RRR. A solid waste project that has simple equipment will not have the same needs as a wastewater treatment plant that will suffer greater wear and tear on specific equipment, such as pumps, and lesser wear on long-term installations such as sewer lines.

18. Use of Loan Proceeds; Procurement. NADB will impose no condition that the proceeds of a loan be spent in the territory of the U.S. or Mexico. NADB will take measures to ensure that the proceeds of any loan made by NADB are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency. All NADB loan proceeds must be expended in accordance with NADB's procurement policies and procedures. These policies and procedures are outlined in the NADB document entitled, "North American Development Bank Procurement Policies and Procedures."

19. Other Terms and Conditions. In making direct loans, NADB shall have the power to determine any other terms and conditions it deems necessary

to ensure a demonstrable and reasonable assurance of repayment of such loans.

F. Information and Disclosure Policies. NADB promotes an open information policy, to the extent practicable and consistent with sound commercial practices. Generally, all documents relating to a proposed NADB loan may be made publicly available; certain exceptions are applicable. For a complete discussion of NADB's information and disclosure policies, please see the document, "Procedures Regarding Disclosure and Confidentiality."

G. Waivers to and Revisions of Policies. The provisions of Section III, "Policies for Making Loans" will be changed only by decision of the Board of Directors, based on a policy paper. In exceptional circumstances, the Board may approve a waiver to the provisions of Section III, "Policies for Making Loans" for a specific financing proposal. If NADB expects to recommend a waiver to the Board as part of a loan financing proposal, NADB shall present a policy paper to the Board on the relevant policy issue(s) at least two months in advance of presenting the financing proposal to the Board.

IV. PROCEDURES FOR MAKING LOANS

To assist project sponsors in determining whether their environmental infrastructure projects are eligible for BECC certification and NADB loan financing, NADB can provide preliminary guidance regarding potential financial designs and structures of projects. As part of this process, NADB will encourage communities to engage in long-term planning for their infrastructure needs, and to establish effective and sustainable methods of operation.

In working with project sponsors on preliminary financing proposals, NADB will determine whether the ability of projects to qualify for NADB loans might benefit from grant support from NADB's Institutional Development Cooperation Program (IDP) or Project Development Program (PDP). During this time, NADB may also assist project sponsors in securing complementary loans, equity, grants or other forms of financing from a variety of public and private sources, including NADB's Border Environment Infrastructure Fund (BEIF) (funded by the U.S. Environmental Protection Agency) and its Solid Waste Environmental Program (SWEP). NADB's evaluation of a project's financial proposal will identify the levels of non-reimbursable financial support a project might need to meet repayment obligations and ensure affordability of the project for the relevant border community's rate-payers.

Once a project sponsor has determined to secure BECC certification and NADB loan financing for an eligible environmental infrastructure project, the sponsor should apply to BECC for certification of the project at the same time it applies to NADB for financing of the project. BECC certification guidelines are contained in the BECC document entitled "Border Environment Cooperation Commission Project Certification Criteria." The Board of Directors makes an effort to approve certification and financing of projects

simultaneously. BECC and NADB will work on a cooperative basis with the project sponsor to ensure that all requirements for certification and financing are addressed in a timely manner. The following procedures must be followed to access NADB loan financing:

A. Application. The project sponsor must complete an NADB loan application (see Annex 1) and submit the application and the required application fee to NADB in order for NADB to begin its loan review process.

Amount of NADB Loan	Application Fee
Less than US\$5 million	US\$1,500
US\$5 million or over	US\$2,500

B. Acceptance Agreement. After preliminary review by NADB of an application for financing, and before NADB and any of its financial, legal or other consultants begin their intensive evaluation of a loan proposal, the project sponsor must enter into an acceptance agreement with NADB. The acceptance agreement includes provisions for payment of expenses incurred by NADB in analyzing the project sponsor's loan proposal. For most projects, NADB will require the advice of outside financial consultants, legal counsel, engineers, and other advisors. There may also be other costs associated with conducting proper due diligence. Consistent with standard commercial practice, NADB will pass through these costs to the project sponsor. A model acceptance agreement is contained in Annex 2 of this document.

C. Loan Financing Proposal. After preliminary review by NADB of an application for financing and execution of the acceptance agreement, the project sponsor must proceed to develop, with NADB's assistance, a complete financing proposal with detailed information for NADB's consideration. NADB will review the material submitted in a timely manner to determine if the proposal includes all the information required to proceed with an evaluation. If NADB determines that the information is incomplete, it will explain the deficiencies to the applicant. A project sponsor's financing proposal should address the following information requirements:

INFORMATION REQUIREMENTS	
1. General Project Information	a) A project description that includes: <ul style="list-style-type: none"> i. information on the applicant (potential borrower): name, address, phone, fax; names and positions of legal representative and key project contact person; ii. a description of the project, its objectives, environmental benefits, impacts, participants and main characteristics, the problem that will be solved with the project and the population

INFORMATION REQUIREMENTS	
	<p>groups which will benefit directly from its implementation;</p> <p>iii. the total cost with a breakdown by category of the expected financial structure (equity, grants, debt);</p> <p>iv. project schedule; and</p> <p>v. a brief description of the planning, construction, operation and maintenance processes.</p> <p>b) All information and documentation submitted as part of the BECC certification process.</p> <p>c) Where appropriate, a feasibility study containing a detailed description of all aspects of the project, and/or a detailed information memorandum, prepared by a qualified party and acceptable to NADB, to include description, location, legal status, ownership, and background on key elements of the project, such as the status of agreements, licenses, local partner participation, guarantors, and financing.</p> <p>d) Draft agreements, to the extent available, for key elements of the project, including supply, off-take, revenues, and operations and maintenance.</p> <p>e) Where applicable, a description of how the project fits into the long-term master plans of the service system and the long-term strategic plans of the community or communities in the service area or affected areas.</p> <p>f) Where applicable, a description of the user fee system in place for the service area, including both historical and projected data on rate levels, comparability of rates to other service areas in the border region, legal authority and capacity to raise rates, and the collections system.</p>
2. Project Participants	<p>a) The potential borrower should present information describing its operations, strategies and policies; organizational and technical structure; management and accounting systems; asset revaluation policy; auditing procedures; the names of auditors and legal counsel.</p>

INFORMATION REQUIREMENTS	
	<ul style="list-style-type: none"> b) Sponsors must provide all relevant financial information, including audited financial statements for the last five years. c) If the sponsors are part of a joint venture or consortium, information should be provided for all the participants. Shareholders' and/or partnership agreements should also be provided. d) Sponsors and guarantors must provide sufficient evidence that they are empowered to assume and discharge obligations in the currency of the NADB loan.
3. Technical Information	<ul style="list-style-type: none"> a) An engineer's report indicating, among other things: the current condition of the system; proposed expansion and improvements; compliance with environmental standards and regulations; project cost assessment; assessment of parties involved in building, operating and maintaining the project. b) A detailed estimate of operating costs. c) A description of the project costs and specifications, with a breakdown of the costs by category. d) A detailed description of the measures taken to protect against project completion risk, including liquidated damage provisions, performance bond requirements, and other guaranty arrangements. e) A project implementation and disbursement schedule, which includes all phases of the project process: planning, bidding, contracting, design, construction, preliminary and regular operation and maintenance. f) An operations and maintenance plan. g) A capital improvement program. h) An overall procurement plan.
4. Economic Information	<ul style="list-style-type: none"> a) Economic information about the project service area should include, among others, economic growth, population trends, income trends and economic activity.

INFORMATION REQUIREMENTS	
	<p>b) Where applicable, the service area's customer profile, including customer mix; system hook-ups; service area demand; service history; percentage of demand covered by the service; sales by category of customer; number of customers by category (including population served but not metered); largest customers by revenue and service; sales system and procedures (service coverage; other service methods; billing and collection history during the last three years); and an assessment of potential opposition to rate hikes.</p> <p>c) Where applicable, market information on the service area, including ten years of historical usage; rates and collections data; present and projected needs and capacity of the service; system demand forecast with assumptions; description of competition, if any; projected market share; identity and location of customers by class; and strategies for hook-ups, rates, and collections.</p>
5. Financial Information	<p>a) A breakdown of anticipated project costs and expenditures from the initial planning phase through start-up, including interest during construction and working capital requirements, by major cost category.</p> <p>b) A summary of the anticipated project financing plan and security package, including the proposed source, amount, currency, and terms of debt, equity investments, and grants; the sources of finance in the event of project cost overruns; and a description of contingency reserves and escrow accounts. Information on the terms, security requirements, and status of financing commitments of other lenders to the projects, if applicable, should be provided.</p> <p>c) Comprehensive audited annual financial reports for the last five fiscal years; draft comprehensive annual financial reports for the current fiscal year; budget for the following fiscal year.</p> <p>d) Where applicable, an analysis of unit costs and rates by category for the last five years and projected for the next five years; and a comparative rate analysis with other cities in the region.</p>

INFORMATION REQUIREMENTS	
	<p>e) Projected annual financial statements covering the period from project development through final maturity of the proposed NADB financing, to include balance sheet, income statement, cash flows, projected debt, and debt service ratios. Projections should also include a sensitivity analysis.</p> <p>f) An evaluation of finance sources: equity, debt, grants; debt/bond issuance history; information on outstanding and other proposed loans and liabilities.</p> <p>g) An assumption for financial projections, including but not limited to the bases for estimates of user fees or other dedicated sources of repayment; operating and administrative costs, depreciation, amortization and tax rates; and local government policy on user fees/rates.</p> <p>h) Where the currency of the loan differs from the currency of project revenues, a description of the measures that will be taken (hedging or recourse arrangements) to protect the borrowers and/or the NADB loan or third-party guaranty from exchange risk.</p> <p>i) Where NADB requires recourse to a project sponsor or guarantor, detailed financial information on the capacity of the sponsor or guarantor to meet its financial obligations must be provided, as well as a detailed description of the potential collateral.</p> <p>j) A description of the principal risks and benefits of the project to the sponsors, lenders, and guarantors.</p> <p>k) A description of the types of insurance coverage to be purchased for both the pre- and post-completion phases of the project.</p>
6. Legal/Regulatory Information	<p>a) A description of progress made toward obtaining all essential government authorizations, licenses, permits, and other legal requirements, including ordinances authorizing project and other license/concession provisions. There must be a reasonable assurance that all required operating permits will be obtained when necessary.</p>

INFORMATION REQUIREMENTS	
	<ul style="list-style-type: none"> b) A description of rate-setting procedures, as well as rate ordinances or resolutions. c) Any sales contracts and supply agreements. d) Documentation and other evidence that project sponsors, borrowers, guarantors and other contractual partners: <ul style="list-style-type: none"> i. are legally organized, are in compliance with the relevant legal formalities, and have legal personality; ii. are empowered to contract credits with NADB in the currency offered by NADB; iii. are empowered to undertake obligations to act as specified in the loan contracts of NADB; iv. have the legal power to carry out such changes in organization and structure as might be needed for the project; v. are not the subject of adverse litigation; vi. are acting consistently with, and are not in breach of, other contracts and obligations; and vii. are able to submit to any arbitration required by the loan agreement and adapt their procurement procedures to NADB policies. e) Appropriate board resolutions, legal opinions, certifications and similar assurances of compliance with legal requirements.

D. Evaluation of the Financing Proposal. NADB staff, with the assistance of outside consultants as necessary, will perform a comprehensive analysis of each complete financing proposal. This process will include an in-depth review of project risks (including construction risks; operating risks; technology risks; management risks; input/supply risks; market risks; foreign exchange risks; interest rate risks, and regulatory risks) and the financial structure of the project. Through this analysis, NADB must ensure that projects are technically, environmentally, financially and economically sound, that project sponsors have the institutional, managerial and structural capacity to carry out their projects, and that a loan proposal meets all of the basic policies governing NADB loans set forth in Section III of this document. In performing this analysis, NADB generally considers the following factors.

LOAN EVALUATION FACTORS

1. General

- a) The project should be a part of an articulated long-term strategic or system master plan that promotes the most effective use of integrated resources, including capital.
- b) The project design and cost shall be appropriate for projects of similar type and size for a particular service area.
- c) Appropriate least-cost solutions will be encouraged for all aspects of a project, especially its operation and maintenance.
- d) Appropriate new designs and technologies will be acceptable so long as the technology risk is not borne by NADB.
- e) The project must generate user fees or other dedicated sources of revenue in the service area and must demonstrate that an effective system for collecting the user fees or dedicated revenue is in place.
- f) Where applicable, the rate setting and approval process must be transparent and should allow the implementation of timely and adequate rate increases, as necessary.
- g) Effective demand management and public awareness strategies should be incorporated into all project designs.
- h) Supply unit pricing and costs should reflect market-based pricing, consistent with NADB's procurement guidelines.
- i) Concessions and contracts let by governmental bodies to private companies shall have been procured under fair, reasonable, competitive and transparent procedures consistent with NADB's procurement guidelines.
- j) Where applicable, sponsors or their guarantors shall have authorized levels of rates and charges sufficient to repay all debt, cover operations and maintenance costs, and fund all reserves, as specified in the loan documents.

LOAN EVALUATION FACTORS	
2. Project Participants	<ul style="list-style-type: none"> a) Project sponsors, borrowers, guarantors and other contractual partners must be able to demonstrate the technical, managerial, and financial capabilities to perform their respective obligations within the project. b) Project sponsors, borrowers and guarantors must demonstrate that they are empowered to assume and discharge financial obligations deriving from the loan contracts, especially obligations for receiving, maintaining and managing funds, as well as making payments on loans. c) Project sponsors, borrowers and guarantors must have sufficient assets to meet their obligations. d) As appropriate, project sponsors or borrowers must show that they have the legal power to set rates for the project and the capacity to implement rate increases, where user fees are a key component of project security. If project sponsors or borrowers do not have the legal capacity to set rates, the guaranty of the entity that does have the legal power to set rates may be required. e) In NADB's assessment of project management, project sponsors or borrowers must demonstrate that they have the capacity to provide service at a reasonable price, implement capital improvement programs independently, and undertake the necessary accounting and financial reporting requirements specified by NADB.
3. Technical	<ul style="list-style-type: none"> a) Project technology must be appropriate and effective. To the extent possible, a project sponsor or borrower must obtain all permits and licenses to construct and operate a project prior to initial disbursement, and there must be a reasonable assurance that all required operating permits will be obtained when necessary. The project sponsors and borrowers must provide a description of all licenses and permits required for a project, and a plan for securing such licenses and permits. NADB will require the sponsor or borrower to periodically report on the program for securing such licenses and permits.

LOAN EVALUATION FACTORS	
	<ul style="list-style-type: none"> b) A technical feasibility study or sufficiently detailed engineering information must be provided to demonstrate the technical feasibility of the project. c) A comprehensive operations and maintenance plan for the term of NADB's financing must be provided to ensure the ability of local utilities to operate and maintain the system. d) The project's procurement procedures must be consistent with NADB's procurement procedures.
4. Economic	<ul style="list-style-type: none"> a) The service area of the proposed project is a focal point in the evaluation of credit risk and, when appropriate, must be able to sustain a level of user fees or other dedicated sources of revenues sufficient to service project debt. b) An economic analysis of the project must be available in order to measure the adequacy and stability of the project's customer base, the sensitivity to economic cycles, future capital needs, and when appropriate the adequacy, competitiveness and affordability of user fees or other dedicated sources of revenues. c) The economic analysis of the service area must support a determination that over the life of the project the service area will be economically viable and the project debt will be serviced.
5. Financial	<ul style="list-style-type: none"> a) Projects should be financially self-sustaining. NADB will examine and evaluate all factors of a borrower and a project, where appropriate, to determine whether or not it will generate sufficient revenues to cover the project's long-term operations and maintenance costs, fund the required reserves, and repay the debt. b) The project should have long-term arrangements for the effective collection of user fees and other project revenues; long-term contracts, where appropriate, from creditworthy entities for the purchase of any project output; and, where necessary and customary, long-term contracts for the purchase of the project's major project inputs such as fuel, raw materials, and for operations and maintenance. Such contracts should extend beyond the term of NADB financing.

LOAN EVALUATION FACTORS	
	<p>c) The project should contain an appropriate allocation of risk to the parties best suited to manage those risks. A sensitivity analysis should indicate a sufficient debt service coverage ratio to ensure uninterrupted debt servicing for the term of the debt.</p> <p>d) The analysis of the creditworthiness of a borrower will include an analysis of the borrower's debt service capacity that explicitly takes into account the sensitivity of the borrower's creditworthiness to potential variability in interest rates; and the exposure element applied to the loan shall reflect this analysis.</p> <p>e) Projects and project sponsors must obtain customary and adequate insurance against normally insurable risks, (e.g., theft of assets, fire, specific construction risks).</p>
6. Legal/Regulatory	<p>a) Legal and regulatory analysis must demonstrate that the project meets all national, state and local legal and regulatory requirements of the place where the project is to be located.</p> <p>b) Loan documentation must conform to NADB policies and guidelines.</p> <p>c) Project sponsors, borrowers, guarantors and other contractual partners must demonstrate that they are empowered to undertake the obligations to act as specified in their agreements with NADB.</p>

E. Approval of Financing Commitment. Upon completion of the evaluation of a financing proposal, NADB staff will make an initial determination whether the proposal meets all of the policies governing NADB loan financing. Proposals meeting all policy requirements will be submitted for final approval as follows:

1. The detailed financing proposal will first be presented to NADB's internal Funding Committee, which is composed of senior NADB staff and chaired by the Managing Director.

2. Upon recommendation of the Funding Committee, the detailed financing proposal will be presented to the Board of Directors for its consideration. The detailed financing proposal will be provided to the Board of

Directors at the same time BECC's certification proposal is provided to the Board of Directors.

3. Following the Board of Directors' approval of certification and financing, a Financing Commitment in the amount authorized by the Board of Directors will be provided to the project sponsor or borrower in the form of a letter. A Financing Commitment is the formal authorization of NADB financial support and commits NADB to make the proposed loan, subject to the borrower's satisfaction of the terms and conditions set forth in the Financing Commitment.

F. Negotiation and Execution of Loan Agreement. NADB staff will negotiate the final terms and conditions of the loan agreement with the borrower, consistent with the Financing Commitment authorized by the Board of Directors. NADB's General Counsel, working with outside legal counsel as necessary, will work with the borrower to prepare the relevant legal documentation for execution by NADB and the borrower. The loan agreement will establish all the terms and conditions of the loan, including among others, provision for payment of principal, interest and other charges, maturities, and dates of payment, and the currency or currencies in which payment will be made to NADB. NADB will also require standard loan covenants as part of its loan agreement, and will make appropriate use of negative pledge, cross-default and pre-payment clauses. The following issues are among those also addressed in the final negotiation and drafting of a loan agreement:

- Conditions Precedent to the Availability of the Loan. Before drawing down the loan, the borrower must satisfy the conditions precedent to the availability of the loan specified in the loan agreement. Among such conditions, the borrower is usually required to provide NADB with such documents as promissory notes, evidence of the borrower's authority to enter into the loan agreement, a legal opinion, a list of the items to be financed and a copy of the necessary authorizations from the authorities in the borrower's country. When the borrower has complied with all these conditions, NADB will make the loan available to the borrower, in accordance with the disbursement schedule in the loan agreement.
- Conditions Precedent to the Disbursement of the Loan. Once the conditions precedent to the availability of the loan have been satisfied, the borrower may request a disbursement. The borrower may have to satisfy additional conditions precedent to the first disbursement of the loan, and subsequent disbursements.
- Reporting. For each project financed by NADB, the following financial and technical reports, as well as others specified in the loan agreement, will be required until the loan is repaid:
 - audited annual financial statements with unaudited monthly or quarterly financial statements, as appropriate;
 - annual budgets;
 - timely reports on any financial problems of a project;

- monthly status reports on the project's development during construction;
- annual operation and maintenance reports;
- timely reports on any significant technical problems encountered by the project; and
- interim and final reports on environmental and human health impacts of the project.

G. Disbursement of Funds. In general, NADB disburses loan funds for eligible costs against project construction invoices. A request for disbursement is made on a form that must be accompanied by copies of invoices and by a report by the project manager or supervisor supporting the request. A detailed description of NADB's disbursement policies and procedures can be found in the NADB document entitled, "Disbursement Manual."

H. Project Supervision. NADB monitors both project construction and completion, and project operation and maintenance, throughout the term of a loan. A detailed description of NADB's supervision policies and procedures can be found in the NADB document entitled, "Supervision of Procurement and Contracting."

I. Project Close-out. Once a project is completed, it requires financial closure. The project closure process consists of documenting results to formalize acceptance of a project by the project sponsor.

CONTACT INFORMATION

For additional information regarding these policies and procedures, please contact one of the following NADB staff:

Director of Project Development – Core Sectors
Director of Project Development -- New Sectors
Chief Financial Officer
General Counsel

North American Development Bank
203 S. St. Mary's
Suite 300
San Antonio, Texas 78212

(210) 231-8000 telephone
(210) 231-6232 fax
www.nadb.org

ANNEX 1: LOAN APPLICATION



BORDER ENVIRONMENT COOPERATION COMMISSION
NORTH AMERICAN DEVELOPMENT BANK



Project Certification and Financing Application

TYPE OF PROJECT

1. TYPE OF PROJECT:

- | | | |
|--|---|---|
| <input type="checkbox"/> Drinking water infrastructure | <input type="checkbox"/> Solid waste management | <input type="checkbox"/> Air quality |
| <input type="checkbox"/> Wastewater infrastructure | <input type="checkbox"/> Landfill construction | <input type="checkbox"/> Public transportation |
| <input type="checkbox"/> Water conservation | <input type="checkbox"/> Closure or rehabilitation of landfill or open-air dumpsite | <input type="checkbox"/> Planning & municipal development |
| <input type="checkbox"/> Pollution control/reduction | <input type="checkbox"/> Recycling & waste reduction | <input type="checkbox"/> Clean energy |
| <input type="checkbox"/> Remediation project | <input type="checkbox"/> Industrial or hazardous waste | <input type="checkbox"/> Efficient energy |
| <input type="checkbox"/> Other environmental/human health-related project (specify): _____ | | |

PRIMARY APPLICANT INFORMATION

2. NAME OF ORGANIZATION: _____
Name of Contact Person: _____
Position: _____
Address: _____
City: _____ State: _____ Zip: _____
Phone No.: _____ Fax: _____
E-mail Address: _____

GENERAL PROJECT INFORMATION

3. LOCATION OF PROJECT SITE: _____
4. POPULATION BENEFITED: _____
5. PROVIDE A BRIEF PROJECT DESCRIPTION:

6. DESCRIBE THE ANTICIPATED ENVIRONMENTAL AND HUMAN HEALTH BENEFITS OF THE PROJECT:

7. PROJECT DEVELOPMENT STATUS:
Describe the status of project development completed to date and list any related documents:

If the project will require land acquisition, please describe the status of this process:

Describe any pending legal/regulatory issues for the project:

8. PROJECT IMPLEMENTATION SCHEDULE:
 If available, provide anticipated construction period, with estimated start-up and completion dates

PROJECT FINANCING INFORMATION

9. ESTIMATED PROJECT COST (US\$): _____
 10. AMOUNT NADB FINANCING REQUESTED (US\$): _____
 11. ANTICIPATED REVENUE SOURCE FOR CAPITAL INVESTMENT AND OPERATIONS: _____

12. ANTICIPATED GUARANTY/COLLATERAL TO BE PROVIDED: _____

13. ANTICIPATED DISBURSEMENT DATE OF NADB FINANCING: _____

14. OTHER SOURCES OF PROJECT FUNDING IDENTIFIED:

Amount	Source	Committed?
		YES / NO
		YES / NO
		YES / NO
		YES / NO
		YES / NO
		YES / NO

15. CREDIT RATING (if available): _____ SOURCE: _____

DOCUMENTATION REQUIREMENTS – PROJECT FINANCING

16. THE FOLLOWING DOCUMENTATION MUST BE SUBMITTED IN ORDER FOR THE NADB LOAN APPLICATION TO BE PROCESSED. CHECK THE BOX NEXT TO EACH ITEM INCLUDED WITH THE APPLICATION:
- Financial statements for the last 3 years. Audited
 - Statement of outstanding debt segregated by type, with a consolidated schedule for each, showing total annual repayment requirements.
 - Statement of prior loan defaults, if any, with an explanation of circumstances surrounding defaults on debt.
 - Pro-forma financial statements for the next 3 years. (Provide explanation if this item is not available.)

A loan application fee of US\$1,500 or US\$2,500 will be required upon acceptance of your project into the formal loan process. For more information about the application fee and the NADB Loan Program, please visit:
http://www.nadb.org/programs/descriptions/loan_guaranty.html

I acknowledge that BECC/NADB resources are intended to supplement other available funding sources for completing project development and construction activities. I am aware that financial support and commitment¹ for the project must be provided by the appropriate governing body or authority, and shall include the following assurances:

- Sufficient revenues for operation and maintenance of the project will be allocated by the project sponsor.²
- Required project financing (debt and grant/other) will be obtained by the project sponsor.

I hereby certify that the information provided is true and correct. I am aware that any false information or omission of information may subject the project to disqualification from further consideration in the BECC/NADB process and eliminate opportunities for funding.

(Project Sponsor Authorized Signatory)

(Date)

¹ A formal commitment by the appropriate governing body or authority in the form of a resolution will be required for all projects selected for funding opportunities.

² A user rate increase may be required to obtain sufficient revenues to sustain the project.

ANNEX 2: ACCEPTANCE AGREEMENT

DATE

ADDRESS

RE: Acceptance Agreement

Dear ADDRESSEE:

The North American Development Bank ("NADB") is in receipt of the application from _____ ("Applicant") for loan financing from NADB for the proposed _____ (the "Project"), dated _____. NADB understands that Applicant has also submitted the Project to the Border Environment Cooperation Commission ("BECC") for certification. I am pleased to confirm that, after preliminary review of financial and other information relating to the Project, NADB is prepared to consider participating in the financing of the Project through a NADB loan (the "Loan").

This letter shall constitute the acceptance agreement between NADB and Applicant required under Part IV, paragraph B, of NADB's Loan Policies and Procedures. Applicant acknowledges and agrees that execution of this acceptance agreement shall not be construed to represent a commitment on the part of NADB to provide financing to the Project. Participation by NADB in the financing of the Project shall be subject to the following, to the satisfaction of NADB: (1) NADB's completion of its evaluation and review of the Loan and the comprehensive financing package for the Project; (2) finalization of the financing package for the Project with evidence of commitment from all funding partners; (3) negotiation of the amount and all other terms and conditions of the Loan; (4) certification of the Project and approval of the Loan by BECC/NADB's Board of Directors; (5) negotiation and execution of all Loan documentation; and (6) payment by Applicant of all expenses incurred by NADB in the evaluation and review of the loan proposal.

NADB requires a written commitment from Applicant to pay NADB's out-of-pocket expenses (the "Expenses") incurred in the evaluation, review and documentation of the Loan, which shall be deemed granted with the execution of this acceptance agreement. These Expenses typically may include: (1) the fees of outside legal counsel retained by NADB for the due diligence on the Loan and the preparation, drafting, and negotiation of the Loan documentation; and (2) the fees of outside consultants retained by NADB for the preparation of financial and technical reports or analyses related to the Loan. The Expenses will be payable by Applicant no later than the closing date of the

Loan, or on such earlier date that NADB, in its sole discretion, determines that NADB will not participate in the financing for the Project.

Applicant agrees to cooperate fully with NADB in its evaluation and review of the Loan. Applicant further agrees to provide NADB with such information relating to the Loan and the Project as NADB may reasonably request. Applicant acknowledges that, in performing its evaluation and review of the Loan, NADB will rely upon information furnished by Applicant, and that Applicant shall be responsible for the accuracy of such information. Applicant hereby represents and warrants that any written or oral information provided to NADB by Applicant will not contain any untrue statement of material fact or omit any material fact necessary to support statements therein.

NADB shall have no liability (in tort, contract or otherwise) to Applicant or to any of its officers, employees, agents or representatives for any claims, liabilities, losses, damages or expenses arising out of any act or omission of NADB in performing its evaluation and review of the Loan unless the same is finally judicially determined to have resulted solely from NADB's gross negligence or willful misconduct. Applicant agrees to indemnify and hold harmless NADB and each of its directors, officers, employees, agents and representatives from and against any and all expenses, losses, claims, damages and liabilities (including all legal or other expenses) arising out of, or related to its evaluation and review of the Loan, other than any expense, loss, claim, damage or liability arising from NADB's gross negligence or willful misconduct.

Kindly arrange to have an authorized signatory sign on behalf of Applicant one enclosed original of this letter to indicate Applicant's agreement with the arrangements described in this letter. Return one signed original to NADB, and retain the other for Applicant's files. NADB looks forward to working with you.

Sincerely,

Project Development Director

I agree with the terms and conditions contained in this acceptance agreement. I represent and warrant that all consents, permits and approvals required to sign this acceptance agreement on behalf of Applicant and to make payment of the Expenses referred to in this acceptance agreement have been obtained.

FOR: APPLICANT

NAME:

TITLE:

DATE: