Green Loan Program Proposal

Published: April 13, 2022

Contents

NORTH AMERICAN DEVELOPMENT BANK
GREEN LOAN PROGRAM PROPOSAL

1 Introduction

NADBank Management believes there are meaningful border environmental projects requiring small loans that NADBank cannot finance directly (for reasons described in section 4, below), but that could be financed through local financial intermediaries if they received financial and technical support from NADBank.

To facilitate those small loans, NADBank Management is hereby proposing to create the Green Loan Program (the "Program"). The Program is designed to provide NADBank financing to small- and mid-size financial intermediaries (SMFIs) for subsequent lending to eligible green projects.

NADBank is requesting Board certification on a programmatic basis for projects meeting the eligibility requirements of the Program and its Green Loan Framework and approval of a financing commitment of up to US$300 million for the Program. Pursuant to this certification and financing approval, Bank Management would be authorized to award individual Green Loans to SMFIs, subject to the procedures, guidelines and limitations established under the Program.

The Program is part of NADBank's 2022-2024 Work Plan (section IV, paragraph 30) presented to the Board in its December 2021 meeting and is in full alignment with the objective of improving NADBank strategic effectiveness established in its Strategic Plan. The Program also responds to the call in the USMCA U.S. implementing legislation for improving NADBank efficiency.[1]

2 Summary and Key Definitions

Program Purpose:	Enhance NADBank's ability to provide financing to small projects and/or enterprises that cannot be reached directly through the NADBank loan program by providing this financing through SMFIs (see a schematic for the Program in Appendix 4).
Green Loan:	Financing in the form of a loan, line of credit or similar facility provided by NADBank to an SMFI under the Program for the purpose of funding Green Projects.

[1] Sec. 833 of the "United States-Mexico-Canada Agreement Implementation Act" requests NADB to "develop and implement efficiency improvements to streamline and accelerate the project certification and financing process, including through initiatives such as single certifications for revolving facilities, programmatic certification of similar groups of small projects, expansion of internal authority to approve qualified projects below certain monetary thresholds, and expedited certification for public sector projects subject to lender bidding processes."

Green Project:	Projects located within the NADBank jurisdiction that comply with the Green Loan Framework.
Sub-loans:	The loans provided by the SMFI to sub-borrowers to finance Green Projects using the proceeds of a Green Loan.
Green Loan Framework:	The framework that defines the project categories that are eligible for NADBank financing under the Program, as well as project evaluation and reporting requirements. (See Appendix 1).
Qualified Borrower:	A SMFI that meets the financial parameters established under the Program. (See Appendix 3).
Program Limits:	A. *Program designated amount*: The cumulative amount of Green Loans financed under the Program shall not exceed US$300 million. B. *Green Loan financing limit*: Up to US$30 million per Qualified Borrower. C. *Green Loan maturity*: The loan tenor shall not exceed 12 years. D. *Sub-loan limit*: Each sub-loan shall not exceed US$5.0 million per obligor.
Additionality:	The Program generates additionality by: i. Increasing access to long-term green financing for small- and mid-sized financial intermediaries, thus expanding their respective green financing programs and funding capacity. ii. Increasing access to affordable loans with longer tenors for small borrowers. iii. Increasing access to green financing for smaller projects. iv. Capacity-building for small financial institutions.
Green Loan Approval Process:	The Green Loan approval process will be similar to the approval process for the ProRec Refinancing Umbrella. The Board will programmatically certify and approve financing for projects meeting the eligibility requirements of the Program and its Green Loan Framework. NADBank will then be authorized to award individual Green Loans through its internal due diligence and approval process and upon ratification of the Managing Director and Chief Environmental Officer.

3 Green Loan Framework

The Program is grounded in the Green Loan Framework (Appendix 1), which defines the project categories that are eligible for financing under the Program. The Framework also establishes:

i. the process for project evaluation and selection, consisting of the identification of the projects to be financed by the Green Loan and a preliminary validation of project eligibility by NADBank;

ii. a description of impact indicators and reporting requirements; and

iii. a mechanism for the reimbursement or reallocation of any funds applied to projects deemed ineligible under the Program.

The Framework includes the new project categories recently approved by the Board for NADBank financing. The Framework has been designed to align with the standards for green financing accepted and followed internationally by financial institutions, including the Green Bond Framework that governs NADBank's most recent bond issuances.

Adherence to the Green Loan Framework will be mandatory for the SMFIs in allocating the proceeds of each Green Loan to Sub-loans. NADBank will monitor each Green Loan to ensure that the proceeds are used to support eligible Green Projects. Adherence to the Green Loan Framework and reporting on the uses of a Green Loan will be a contractual requirement for any financing provided under the Program.

4 Justification and Additionality

NADBank's capacity to provide small- to medium-size loans has been limited due to: (i) its limited retail capacity for the origination and administration/monitoring of loans for small- and medium-size projects or borrowers; and (ii) the higher relative costs for NADBank of structuring and administering small loans, which makes them unaffordable for small and medium projects. These circumstances reduce NADBank's ability to provide environmental benefits in the border region, as NADBank is losing opportunities to support green projects and environmental infrastructure at the micro level. Having a loan program where one borrower undertakes the origination of multiple sub-loans alleviates this issue.

As local entities, SMFIs are better suited to assess opportunities, assess risks, and provide financing to smaller projects and enterprises, environmental effectiveness and administrative efficiency can be improved by providing single NADBank loans that will in turn fund multiple smaller loans, as compared with processing each small loan independently. For this reason, larger commercial banks and international development institutions have programs to provide loans to SMFIs for subsequent lending to small and medium borrowers, thereby expanding their credit programs and maximizing community impact.[2]

NADBank's Board has authorized and successfully implemented two lending operations through financial intermediaries: Mercader Financial and Value Arrendadora. Both

[2] See, for example, this recent loan approved by IDB Invest to Te Creemos.

transactions included a project framework that was certified along with the approval of the financing commitment. The framework consisted of a clean buses program in the metropolitan areas of the Mexican border region. The financial structure allowed NADBank to reach small- and medium-size public transportation companies with financing for more than 700 buses. These companies would not have been able to access the NADBank loan program directly. The sub-loans out of those loans were for amounts as small as US$200,000 and required 20 to 30 days to be authorized.

The COVID-19 Recovery Program (ProRec), through its Umbrella Program for Refinancing Existing Debt of Public Entities, is also an important reference for the advantages of streamlining loan processing by using programmatic certification of similar projects. Several small municipal entities in the U.S. and Mexico have benefitted from the program's expedited processes. The Bank has been able to respond to the tight time schedule under which the requests for proposals are processed in U.S. and Mexico municipal financing.

The successful experience with the loans for buses programs and the ProRec have demonstrated the increased effectiveness and efficiency for allocating loans through a programmatic framework.

The proposed Program would generate limited risk exposure for NADBank due to: (i) the limited financing commitment authorized for the Program; (ii) the limited maximum exposure per SMFI; (iii) the establishment of qualifying financial metrics for SMFIs to participate in the Program; (iv) NADBank's risk is of the SMFI; the SMFI bears the risk of the Sub-loan, and (v) the limited maximum amount per Sub-loan. These limitations will be established as part of the Program Procedures and Guidelines.

The Program provides additionality in two stages—at the SMFI level and, ultimately, for small borrowers:

- The Program would expand the funding options for SMFIs for longer-term financing, which would support the creation of more affordable financing products for their clients and expand their services in the NADBank region.
- By adhering to the Green Loan Framework, the Program will encourage the SMFIs to promote green financing options that might not otherwise have been generated. As a result, SMFIs will build institutional capacity in establishing frameworks for green financing.
- Many small- and medium-size businesses and farmers are precluded from adopting green technology and improving their efficiencies due to a lack of term financing at a reasonable financial cost, especially those not located in large metropolitan areas. Longer tenors for the SMFIs would result in longer tenors at the sub-loan level, making such green loans more suitable for small- and medium-size borrowers. [3]
- NADBank will provide support for capacity building at the SMFIs, not only to ensure the administration of NADBank funds, but also to help them enter successfully into the mainstream financing of green projects in general. By building the capacity of

[3] NADB's own experience, along with the results from other international financial institutions (ref. IDB, WB-IFC, KfW), show additionality for the ultimate borrower in the form of: increased access to long-term and affordable financing for small and medium size borrowers in general, including financial inclusion (see https://www.worldbank.org/en/topic/financialinclusion).

local SMFIs, the Program will work to expand the green financing options that these institutions offer to their clients.

5 Market Analysis and Pipeline Potential

Numerous SMFIs are showing strong appetite for impact-financing programs. They are actively pursuing lending opportunities in investments related to sustainability, such as green loans, environmental, social & governance (ESG), and financing and sustainable development goals (SDG) financing. The Program would target SMFIs active (or planning to be active) in the NADBank region and in sectors aligned with its mandate.

Based on the lines of business of some representative SMFIs in the border region, there is lending activity in sustainable agriculture (i.e., efficient irrigation, clean energy generation, water conservation and resource-efficient equipment acquisition); sustainable food chains (i.e., lending to micro-, small- and medium enterprises for resource-efficient equipment); sustainable buildings, including sustainable housing; the leasing of manufacturing and service equipment with environmental merit (i.e., mobility, renewable energy generation, energy efficiency, replacement of polluting or inefficient energy equipment, etc.); distributed energy generation projects; and urban infrastructure. The NADBank region shows significant financing needs for projects related to water and energy efficiency, water conservation, ecosystem restoration, climate change adaptation and clean energy use, which is increasing the credit appetite in those categories.

Appendix 2 provides additional information on the potential SMFI market in the U.S. and Mexico. To summarize, in the U.S., the SMFIs that have activity aligned with the Bank's mission are usually located in small, underserved communities. Most of these institutions are micro-lending organizations or community finance corporations that have limited access to the bond market or asset securitization markets and, therefore, their funding sources are relatively more expensive and at shorter tenors. SMFIs include regulated institutions, such as community development banks and credit unions, and non-regulated institutions, such as loan and venture capital funds.

In Mexico, SMFIs mostly consist of multi-purpose non-bank financing institutions (SOFOMs), savings and loan cooperatives (Socaps), community financing partnerships (Sofincos & Sofipos), credit unions and a few commercial banks.

By their nature and purpose, unregulated non-bank financial institutions in Mexico, and community development financial institutions in the U.S., as well as small banks, would be the most suitable borrowers for the Program. A sample list of such institutions is presented in Appendix 2.

Based on the current financial needs that NADBank could cover and considering the project categories aligned with the proposed Green Loan Framework, NADBank estimates lending US$40 million to US$60 million per year through the Program.[4]

[4] Calculation presented in Appendix 2.

6 Program Procedures and Guidelines

6.1 Green Loan Eligibility Criteria

SMFIs that seek financing from NADBank may receive funding through a Green Loan, provided the following criteria are met:

1) *Qualified Borrower*: Any financial entity that meets the minimum financial requirements established in Appendix 3, which includes the sizing parameter for SMFI definition.
2) *Project location*. All projects funded by the SMFIs with NADBank funds must be located within NADBank's jurisdiction; regardless of the location of the SMFI.
3) *Green Loan Framework compliance*. The sub-loans funded with the Green Loans must be used to finance eligible Green Projects and must comply with the principles and conditions of NADBank's Green Loan Framework in Appendix 1.

6.2 Green Loan Approval Procedures

The Board will programmatically certify and approve financing for projects meeting the eligibility requirements of the Program and its Green Loan Framework. NADBank will then be authorized to award individual Green Loans through its internal due diligence and approval process and upon ratification of the Managing Director and Chief Environmental Officer.

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

1) *Green Loan Limitation Compliance*. All Green Loan financial proposals must comply with the following limits.
    i. The tenor will not exceed 12 years.
    ii. The principal amount will not exceed US$30 million per obligor and, in case of a recurrent line of credit, will be measured as the loan amount outstanding.
    iii. Sub-loan amounts will not exceed US$5 million per Green Project and per obligor at any given time.
    iv. Borrowers will have access to Green Loan proceeds during a maximum disbursement period of two (2) years from financial closing.
2) *NADBank Due Diligence*. Based on its established standards and practices, the Bank will review each Green Loan taking into consideration:
    i. The alignment of the SMFI's line of business with NADBank's Green Loan Framework (Appendix 1);
    ii. The SMFI's technical capacity and ability to comply with applicable environmental laws and regulations;
    iii. The SMFI's compliance with the definition of a Qualified Borrower; and

iv. A comprehensive risk assessment of the SMFI as a borrower.

3) *Green Loan Approval*. The Managing Director and Chief Environmental Officer must ratify each Green Loan upon successful due diligence, confirming the proposed transaction's compliance with all elements of the Green Loan Program and its Green Loan Framework.

4) *Green Loan Execution*. After loan approval, the Bank can proceed to close financing with the SMFI under the approved terms and conditions, which shall include compliance with the Green Loan Framework as an obligation under the loan agreement.

5) *Report to Board*. Management will report to the Board any Green Loan approval within 15 business days of such approval.

7 Program Evaluation and Reporting

Each Green Loan will include a tailored results matrix to identify and report the environmental benefits expected from each financing. Such results matrix will include the pertinent indicators based on those presented in Table 2 of the Green Loan Framework (Appendix 1).

The SMFI will commit to provide information on the use of the loan proceeds and the Green Projects financed in order to identify the environmental benefits. Information on the Green Loan and Sub-loans will be reported periodically by the borrower. NADBank and the SMFI will agree on the terms of such reporting based on the type of projects, the disbursement period, and the conclusion of loan implementation. A closeout report summarizing the results will be produced at the end of the implementation period.

NADBank Management will provide a semi-annual general assessment of the Program and its estimated environmental benefits at the Board meetings as part of the NADBank status report.

8 Public Consultation and Request for Board Authorization

The proposed Program, along with the Green Loan Framework, will be released for a 30-day public consultation period prior to formal Board action. NADBank Management will report on any comments received. At the conclusion of the public comment period and subject to satisfactory resolution of any comments, Management will request that the Board:

1. Certify and approve for financing projects meeting the eligibility requirements of the Program and its Green Loan Framework; and
2. Provide a financing commitment of up to US$300 million to fund Green Loans under the Program.

APPENDIX 1:
Green Loan Framework

This framework is designed to ensure that all loans awarded under the Green Loan Program by the North American Development Bank (NADBank) are eligible under the NADBank Charter (the "Green Loans"). In addition, it ensures that all Green Loans made by NADBank are aligned with best market practices, as outlined by the International Capital Market Association (ICMA) 2020 Green Bond Principles, the Loan Market Association (LMA) 2020 Green Loan Principles, and the United Nations Sustainable Development Goals. The Framework is structured around the following components:

1. Use of proceeds
2. Eligible Green Projects
3. Project evaluation and selection
4. Management of proceeds
5. Periodic reporting
6. Capacity building

This Framework may be updated from time to time to ensure continued alignment with voluntary market practices, emerging standards and classification systems. Any updated version of this framework will either maintain or improve the current levels of transparency and reporting disclosures.

1. Use of Proceeds

A Green Loan will be provided on a programmatic basis to a SMFI for the financing of a portfolio of Green Projects or Sub-loans.[5] The proceeds from a Green Loan can be used for: (i) the funding of new eligible Green Projects that will be financed during the availability period of the Green Loan, (ii) the acquisition of a portfolio of new eligible Green Projects; and (iii) the disbursement against, or acquisition of, eligible Green Projects funded by the SMFI during the twenty-four (24) months preceding the contracting of the Green Loan.

2. Eligible Green Projects

Green Projects that are eligible under this framework may include new capital and maintenance investments, and funded investments as defined above. This Framework identifies nine eligible Green Project categories: (1) sustainable buildings, (2) renewable energy, (3) energy efficiency, (4) mobility, (5) water and wastewater management, (6) sustainable food value chains, (7) sustainable waste management, (8) sustainable-industrial parks and (9) green manufacturing and manufacturing of green products. More specific types of eligible investments within these categories are included in Table 1.

[5] The concepts "Green Projects" and "Sub-loans" will be used interchangeably to refer to the type of investments that meet the criteria for the use of loan proceeds in accordance with this framework.

Any project or asset associated with the following activities will be excluded from the eligible investments:

- Exploration and production of fossil fuels;
- Energy generation exclusively based on burning fossil fuels or hybrid plants with more than 15% fossil fuel support;
- Construction of rail infrastructure to transport fossil fuels;
- Generation of nuclear energy;
- Electricity transmission infrastructure and electricity systems where an average of 25% or more is fossil-fuel-generated;
- Industries for alcohol, arms, tobacco, or gambling;
- The production or trade of any product or activity that is considered illegal according to national laws or regulations or international agreements and conventions;
- Deforestation or forest degradation and
- Activities in protected areas or activities that violate rights of indigenous peoples.

TABLE 1 – TYPES OF ELIGIBLE INVESTMENTS

Eligible Category	Eligible Expenditure	Environmental Benefits	Contribution to SDG
Sustainable buildings	The financing and reimbursement of investments related to: i. Modernization of buildings, with a 30% minimum reduction in carbon emissions. ii. Design, construction, and maintenance of buildings certified under the "LEED"[6], "EDGE"[7], or equivalent certifications. iii. Costs associated with the retrofitting of existing buildings to comply with one of the certifications recognized by this Framework or to improve the current certification level within three years.	▪ Climate change mitigation ▪ Energy savings ▪ Water savings ▪ Greenhouse gases reduction	
Renewable energy	The financing and reimbursement of investments related to: i. Design, construction, operation, and maintenance of facilities that produce electricity from: a. Wind power[8] b. Solar PV, concentrated solar power, and solar thermal[9] c. Hydropower (under 25 MW), including pumped-storage facilities[10] d. Bioenergy[11]	▪ Climate change mitigation ▪ Greenhouse gases reduction ▪ Provision of low-carbon infrastructure	

[6] Leadership in Energy and Environmental Design with a rating of GOLD or above.
[7] Excellence in Design for Greater Efficiencies.
[8] Wind installations must not have more than 15% of the electricity generated from non-renewable sources. Expenditures related to the production of electricity from wind power will be considered eligible only when ensuring recycling at end of life based on waste management plans, dismantling/decommissioning processes at time of decommissioning, for example through contractual agreements.
[9] Solar installations must not have more than 15% of the electricity generated from non-renewable sources. Expenditures related to the production of electricity from Solar PV will be considered eligible only when ensuring durability and easy dismantling, reparability through accessibility and exchangeability of the components, refurbishment, and recycling, for example through approved sourcing or certifications.
[10] Facilities are operating at life-cycle emissions lower than 100gCO_2e/kWh.
[11] Eligible expenses must meet three conditions: (i) facilities operate above 80% of GHG emission-reduction in relation to the relative fossil fuel comparator; (ii) facilities demonstrate woody carbon stocks are maintained or enhanced; and (iii) for installations that produce electricity from biomass/biofuel, the GHG emissions of the electricity generated must not exceed 100gCO_2e / kWh. Eligible feedstock for the purposes of this Framework includes all feedstocks except: (i) wood (and all woody biomass); and (ii) third-generation biofuels.

Eligible Category	Eligible Expenditure	Environmental Benefits	Contribution to SDG
	ii. Transmission and distribution infrastructure supporting power generation systems eligible under this Framework. iii. Investments in renewable power projects that include energy generation and storage (batteries). iv. Energy storage.	▪ Promote energy generation from renewable sources	
Energy efficiency	The financing and reimbursement of investments related to energy efficiency measures in public and private facilities and enterprises. Eligible investments include:[12] i. Energy efficient appliance and lighting, including the replacement of existing street lighting systems with new efficient lighting appliances and systems (e.g., replacement with LEDs). ii. Energy efficiency in buildings and industrial parks which results in total savings higher than 20%: including (but not limited to) retrofits, thermal insulation, and/or upgrades of air-conditioning systems. iii. Energy efficiency improvements in housing, including (but not limited to) a) insulation, b) air-conditioning, c) solar heating systems, d) photovoltaic systems, and e) appliances. iv. Energy storage.	▪ Climate change mitigation ▪ Energy savings ▪ Greenhouse gases reduction	  
Mobility	The financing and reimbursement of investments related to: i. Design, construction, operation, and maintenance of transport programs and projects with zero direct emissions, including: a. Metro and light rail transit, including infrastructure and vehicles b. Electric buses, trams and trolleybuses c. Trains ii. Other vehicles with direct emissions below 50gCO_2/pkm (at full capacity) (e.g., public and personnel buses, taxis, municipal or commercial fleets)	▪ Climate change mitigation ▪ Greenhouse gases reduction ▪ Air quality improvement ▪ Promote the transition to	 

[12] Energy efficiency measures on motorized equipment powered by fossil fuels are not considered eligible expenditures.

Eligible Category	Eligible Expenditure	Environmental Benefits	Contribution to SDG
	iii. Design, construction, operation, and maintenance of infrastructure for low-carbon transport, including: a. Infrastructures required for zero direct emissions transport (e.g., electric charging points, electricity grid connection upgrades, hydrogen fueling stations or electric highways) b. Infrastructure and equipment (including fleets) for active mobility (walking, cycling, e-bikes, and e-scooters) c. Infrastructure that is predominantly used for low-carbon transport, which includes dedicated lanes. d. Infrastructure for efficient cargo transportation satisfying the emission requirements described in this Framework (50gCO_2/pkm) e. Intermodal infrastructure to connect different means of clean public transportation, monitoring and control systems, passenger safety systems and infrastructure along with bicycle paths and parking	low-carbon transportation	
Water and wastewater management	The financing and reimbursement of investments related to the design, construction, operation, retrofit, maintenance, expansion and adaptation of infrastructure for the efficient and sustainable management of water and wastewater, for a reliable supply of water and for wastewater services, its treatment and reuse, including: i. Infrastructure and systems that improve the resilient, efficient and sustainable management of water and wastewater, excluding any water and wastewater treatment related to fossil fuel activities (i.e., fracking). It includes small desalination plants (up to 50 lps/1.1 mgd) that provide access to fresh water in regions with limited water supply ii. Drinking water management: installation or improvement of water supply and distribution infrastructure iii. Desalination plants over 50 lps/1.1mgd, provided that the average carbon intensity of the electricity used for desalination is at or below 100g CO_2e/kWh	▪ Promote the conservation of water resources ▪ Climate change adaptation ▪ Water savings	 

Eligible Category	Eligible Expenditure	Environmental Benefits	Contribution to SDG
	iv. Wastewater management: installation or improvement of wastewater infrastructure, including collection, treatment, reuse and disposal systems v. Conservation of water resources: including the elimination of water losses in urban supply and agricultural irrigation districts vi. Works to protect water catchments and prevention of pollution affecting water supplies vii. Defense systems against river floods accompanied by a supporting vulnerability assessment and adaptation plan, including the construction of reservoirs to control water flows viii. Monitoring systems, including smart networks, early warning systems for droughts and floods, and water quality monitoring systems (e.g., remote water quality/quantity monitoring systems, stormwater warning systems, floodwater warning systems, dam failure warning systems)		
Sustainable food value chains	The financing and reimbursement of investments related to: i. Agriculture inputs, including seeds and fertilizers (excluding inorganic and synthetic fertilizers)[13] ii. Agricultural production under agroforestry systems iii. Agricultural practices and/or equipment to reduce erosion, runoff or other forms of pollution iv. Agriculture monitoring, information and data management systems and software v. Drip-irrigation systems vi. Irrigation systems with superior water efficiency compared to existing systems and practices	▪ Climate change adaptation ▪ Climate change mitigation ▪ Greenhouse gases reduction ▪ Increased ecosystem resilience	

[13] Provided a nutrient management plan is in place that identified the right rate of nitrogen fertilizer use. The word "right" in this category refers to producing the least emissions possible while maintaining productivity.

Eligible Category	Eligible Expenditure	Environmental Benefits	Contribution to SDG
	vii. Climate-smart agriculture systems strengthening the adaptive capacity of existing agricultural systems while ensuring resource utilization optimization. Eligible expenditures include investments in the application of modern technologies in agriculture, such as Internet of Things (IoT), Artificial Intelligence, Geo-informatics and Big Data analytics to determine optimal crop health and increase food safety viii. Technologies and processes to reduce the use of resources or waste generation during food processing, packaging, storage, distribution and marketing. Eligible investments must meet relevant criteria established under this Framework.		
Sustainable waste management	The financing and reimbursement of investments related to: i. Design, construction, operation and maintenance of facilities for the collection, classification, sorting and disposal of non-hazardous waste ii. Purchase, operation and maintenance of waste collection vehicles iii. Facilities processing food and/or green/garden/yard waste to produce compost for agricultural, municipal or consumer applications with zero measurable methane emissions iv. Projects to capture biogas from closed landfill facilities[14] v. Projects to eliminate existing illicit or out of compliance dumpsites	▪ Circular economy ▪ Greenhouse gases reduction ▪ Air quality improvement	
Green manufacturing and manufacturing of green products	The financing and reimbursement of investments related to: i. Manufacturing of pesticides and fertilizers that meet relevant criteria established under the Sustainable Food Value Chains category of this Framework ii. Manufacturing of zero direct emission vehicles that meet relevant criteria established under the Mobility category of this Framework	▪ Provision of low-carbon infrastructure ▪ Promote energy generation from renewable sources	

[14] Provided that the following conditions are met: (i) gas capture >= 75%; and (ii) gas is used to generate electricity and/or input to the natural gas grid and/or used as vehicle fuel.

Eligible Category	Eligible Expenditure	Environmental Benefits	Contribution to SDG
	iii. Manufacturing of key components to be used in vehicles that meet relevant criteria established under the Mobility category of this Framework (e.g., manufacture of lithium-ion batteries) iv. Manufacturing of zero direct emission buses or coaches that meet relevant criteria established under the Mobility category of this Framework v. Manufacturing of other vehicles that meet relevant criteria established under the Mobility category of this Framework vi. Manufacturing of key components to be used in renewable energy and energy efficiency projects that meet relevant criteria established under this Framework vii. Manufacturing facilities wholly dedicated to the production of vehicles that meet relevant criteria established under this Framework viii. Manufacturing facilities wholly dedicated to wind or solar energy development ix. Construction or retrofitting of manufacturing processes that generate water/energy savings or avoid/displace pollutants or waste.	▪ Circular economy ▪ Greenhouse gases reduction	
Sustainable industrial parks	The financing and reimbursement of investments related to the construction, retrofitting, and maintenance of sustainable or eco-industrial parks (EIP) that meet the following prerequisites: i. A park management entity (or alternative agency, where applicable) exists to handle park planning, operations and monitoring ii. Firms have a functioning and fit-for-purpose energy management system (EMS/EnMS). Summary information from these management systems is provided to park management, who aggregate and report on data at the park level.	▪ Circular economy ▪ Greenhouse gases reduction ▪ Climate Change mitigation ▪ Water savings ▪ Energy savings	  

Eligible Category	Eligible Expenditure	Environmental Benefits	Contribution to SDG

Eligible industrial parks must also satisfy at least one of the following sector requirements:

Sector	Requirement	Target
Energy	The industrial park has adequate metering and monitoring systems in place to measure thermal energy and electricity consumption at both the park and firm levels.	Percentage of park facilities [100%]; or Percentage firm-level energy consumption monitored [20%]
	The industrial park leverages available renewable energy with plans to increase its contribution for shared services (for example, solar streetlamps).	National grid emission factor ≥ combined emissions intensity as per unit of produced and purchased heat and electricity for use by park firms
	Energy efficiency opportunities should be identified at the park and firm levels to reduce energy use and associated greenhouse gas emissions.	Percentage of CO_2 emissions covered by the firms with energy management certification [10%]
Water supply and wastewater	A mechanism is in place to monitor water consumption across the park and establish demand management practices in case of water stress.	A mechanism exists for 100% of tenant firms
	The industrial park has provisions to treat, recycle and reuse treated wastewater.	Percentage of wastewater treated/total wastewater [100%]
	The industrial park and firms have systems in place to increase water savings and reuse.	Percentage of water reused or recycled/total water consumed [25%]

Eligible Category	Eligible Expenditure			Environmental Benefits	Contribution to SDG
	Waste and material use	A waste management plan with a program/mechanism in place to promote and encourage reuse and recycling of materials by firms in the park	Percentage of solid waste reused/total waste [25%]		
		Program/mechanism in place with clear targets to reduce and avoid the use of hazardous materials by firms in the park.	Percentage of firms with programs for handling and disposing of hazardous materials [100%]		
		Circular economy (CE) practices are in place and used by firms. Circular economy practices consist of a) redesigning products for ease of reuse, remanufacturing, disassembly and recycling; b) reuse of waste and/or byproduct within its operations; c) collecting back and remanufacturing products or parts and components of products.	Percentage of tenant firms participating in CE practices described [20%]		
	Climate change and the natural environment	Native flora and fauna are important to maintain the proportion of natural areas. They are integrated within the industrial park and natural ecosystem where possible	Percentage of open space in the park for native flora and fauna [5%]		
		Firms in the park have mechanisms in place to avoid, minimize and/or mitigate significant point-source pollution and GHG emissions, covering GHG gases (CO_2, methane (CH4), nitrous oxide (N_2O), local particulate and air pollution emissions, such as $PM_{2.5}$, heavy metals (Hg, Cd, Pb, and other relevant heavy metals).	Percentage of firms with at least one of these mechanisms [50%]		

3. Green Project Evaluation and Selection

The evaluation and selection of Green Projects occurs at two levels: (i) as part of the approval process of the Green Loan, and (ii) as part of the verification process for allocation of the loan proceeds to specific Green Projects or a portfolio of such projects that are eligible under the Green Loan Framework.

Green Loan Approval

When seeking a Green Loan from NADBank, the SMFI shall identify the projects, assets and investments it intends to finance under this framework for NADBank review and determination of the loan amount. The SMFI will be responsible for performing a preliminary eligibility review based on NADBank´s eligible Green Project categories and identifying the anticipated environmental benefits to be reported. NADBank will work with the financial intermediary in this review. The application for a Green Loan does not necessarily have to include a complete portfolio of specific Green Projects, but at a minimum must provide information regarding the types of projects that the borrower intends to fund with the Green Loan, as well as identify the typical indicators that would be tracked.

NADBank´s loan due diligence and approval process includes a review of the proposed Green Projects. Once a proposed Green Loan is approved by NADBank's internal committees, the Managing Director and Chief Environmental Officer will have to ratify that all environmental and financial requirements under the Program have been met prior to financial closing.

Green Project Evaluation and Selection

Specific Green Projects or a portfolio of such projects shall be reviewed by NADBank to validate eligibility under the Green Loan Framework (Table 1). Funds can either be disbursed against eligible previously funded Sub-loans (within the 24-month window) or against an estimated pipeline of Green Projects to be developed during the loan availability period (not to exceed 24 months). The anticipated environmental benefits to be achieved by the proposed Green Projects will be identified and quantified by NADBank using the indicators described in Table 2. In addition, any environmental risks associated with the Green Projects will be identified and assessed. All Green Projects must comply with local, state and national environmental laws and regulations. After loan disbursements, NADBank will continue loan implementation monitoring and review, to ensure compliance with this framework and anticipated eligible investments and indicators.

If at any time NADBank determines that a project included in a Green Loan portfolio does not meet the Green Loan Framework eligibility criteria, that Sub-loan shall not be considered an eligible use of proceeds under the Green Loan. In that case, the SMFI will reallocate the proceeds to other eligible investments that comply with the eligibility criteria prior to the expiration of the Green Loan availability period or the funding allocated to that Sub-loan will be prepaid.

4. Management of Green Loan Proceeds

The uses of Green Loan proceeds will be described in the corresponding credit agreement. The SMFI will be responsible for guaranteeing that an amount at least equal to the Green Loan amount (except for allowable financial costs of the loan) will be allocated to the funding of future and/or funded investments that meet the eligibility criteria defined in the Use of Proceeds section of this Framework. The credit agreement will also include an availability or disbursement period, that will establish the period during which the proceeds of the Green Loan will be available to finance eligible Green Projects.

Pending the use of funds, the Green Loan proceeds may be held in accordance with the SMFI's normal liquidity management policy. As long as a Green Loan is outstanding, the balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible Green Projects made during such period.

During the Green Loan availability period, the SMFI must provide supporting documentation to prove that loan proceeds were used for the financing and/or reimbursement of eligible Green Projects as described under Use of Proceeds section of the Framework. A list of such documentation will be referenced in the corresponding credit agreement. Any unused funds after the loan availability period ends will be used to prepay the Green Loan.

5. Periodic Reporting

As long as a Green Loan remains outstanding, SMFIs shall submit to NADBank periodic reports that will include:

- A description of the Green Projects financed with the proceeds of the loan
- Amount of proceeds allocated per Green Project
- Amount of proceeds disbursed per Green Project
- Amount of proceeds allocated for financing and for reimbursement
- Remaining balance of unallocated proceeds
- Percentage of co-financing per Green Project (if applicable)
- The anticipated environmental impact of such projects. NADBank will support the SMFI to produce this input.
- The methodologies and assumptions used to estimate the anticipated environmental impacts, based on the indicators agreed upon
- Evidence that Green Loan proceeds have been allocated in accordance with this Green Loan Framework.

For each project and asset financed and/or reimbursed with the Green Loan proceeds, the SMFIs shall report to NADBank using indicators equal or similar to the examples provided in Table 2.

TABLE 2 – GREEN PROJECT INDICATORS

Eligible Green Category	Environmental Impact Indicators
Sustainable buildings	• Annual energy savings (in MWh) • Annual GHG emissions reduced/avoided (in tons of CO_2 equivalent) • Number of buildings that have obtained one of the certifications recognized by this Framework
Renewable energy	• Installed renewable energy capacity (in MW) • Annual renewable energy generation (in MWh) • Annual GHG emissions reduced/avoided (in tons of CO_2 equivalent)
Energy efficiency	• Number of energy efficiency equipment and appliances installed • Annual energy savings (in MWh) • Annual GHG emissions reduced/avoided (in tons of CO_2 equivalent) • Number of households/people/micro, small & medium enterprises (MSMEs) with access to energy efficient systems and appliances
Mobility	• Number of low-carbon vehicles deployed by type of transport (e.g., number of trains/buses) • Number of users served • Number of vehicles replaced by hybrid, electric or natural gas vehicles • Annual GHG emissions reduced/avoided (in tons of CO_2 equivalent) • Annual $PM_{2.5}$ emissions reduced/avoided (in tons) • Number of new electric train lines/bus lines/metro lines created/maintained
Water and wastewater management	• Volume of water collected and/or treated (m^3) • Increased water efficiency of systems (% reduction in water consumption/loss) • Number of users with access to clean drinking water • Annual volume of clean drinking water supplied for human consumption (in m^3) • Number of efficient pumps installed • Km of new water pipes installed • Number of new reservoirs/flood defenses built • Other relevant indicators based on the projects considered
Sustainable food value chains	• Area cultivated with agroforestry and/or silvopastoral systems (hectares)

	• Area of plantations and natural forest under active monitoring (hectares) • Area cultivated with drip irrigation system (hectares) • Area cultivated with organic fertilizers (hectares) • Area of rice converted to other crops (hectares) • Water, energy savings or the quantity of pollutants avoided over a period of time
Sustainable waste management	• Number of waste treatment plants built • Tons of waste collected, classified, and recovered • Tons of recycled waste
Sustainable industrial parks	• Installed renewable energy capacity (in MW) • Annual renewable energy generation (in MWh) • Estimated annual GHG emissions reduced/avoided (in tons of CO_2 equivalent) • Percentage and volume of wastewater treated/total wastewater • Percentage and volume of water reused or recycled/total water consumed • Percentage and volume of solid waste reused/total waste • Percentage and number of firms with programs for handling and disposing of hazardous materials • Percentage and number of tenant firms participating in circular economy practices • Percentage and hectares of open space in the park for native flora and fauna
Green manufacturing and manufacturing of green products	• Number of zero direct emission vehicles manufactured • Number of low-carbon vehicle components manufactured • Number of vehicles manufactured • Number of solar PV components manufactured • Number of wind components manufactured • Water, energy savings or the quantity of pollutants or waste avoided/displaced over a period of time

6. Capacity Building

NADBank will provide support to the SMFIs in capacity building in general, as well as for the Green Loan administration and reporting. It will include support for the strengthening of their institutional capacity and reporting systems to achieve mainstream industry standards for green financing.

APPENDIX 2
Analysis of Potential Market

In the U.S., the SMFIs that have activity aligned with the Bank's mission are normally located in small, underserved communities. SMFIs include regulated institutions, such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds. Loan funds are typically non-profit organizations that provide financing to small businesses, microenterprises, affordable housing developers and community service organizations.

Most of these institutions are designated as community development financial institutions (CDFI). CDFIs in the U.S. that promote sustainable community development typically obtain CDFI Fund certification. The CDFI Fund supports organizations that provide financial services in low-income communities and to people who lack access to financing. The CDFI Fund would be a key institution to partner with for implementation of the Green Loan Program in the United States. Other entities, such as state revolving funds and municipal corporations, as well as the U.S. Department of Agriculture Rural Development (USDA-RD), would be potential partners for the Program.

NADBank can support CDFI Fund efforts by catalyzing investment in the border region. There are 30 to 40 CDFI-certified entities within the NADBank region, the majority in the form of loan funds and credit unions, along with a few local banks and thrift institutions. The financial profile of these institutions can be used to extrapolate the potential market profile for SMFIs in the U.S.

PRIMARY LINE OF BUSINESS OF REPORTING CDFIS BY INSTITUTION TYPE (2019)

Primary line of business	Bank/Thrift Share (N)	Credit Union Share (N)	Loan Fund Share (N)	Venture Capital Fund Share (N)	Total (N)
Business finance	37.7% (46)	1.2% (3)	28.3% (134	42.9% (6)	22.2% (185)
Commercial real estate finance	24.6% (30)	0.0% (0)	9.5% (45)	7.1% (1)	8.9% (76)
Consumer finance	3.3% (4)	92.6% (224)	7.0% (33)	0.0% (0)	30.7% (261)
Intermediary finance	0.0% (0)	0.0% (0)	2.3% (11)	7.1% (1)	1.4% (12)
Microfinance	0.0% (0)	0.4% (1)	18.8% (89)	0.0% (0)	10.6% (90)
Other	0.0% (0)	1.2% (3)	2.3% (11)	7.1% (1)	1.8% (15)
Residential real estate finance	34.4% (42)	4.6% (11)	31.7% (150)	35.7% (5)	24.4% (208)

Across the current profile of CDFI lending, the primary lines of business that could generate eligible loans for the Program would be residential real estate finance (24.4%), business

finance (22.2%), and commercial real estate finance (8.9%), to the extent that the projects are in sustainable buildings, manufacturing of green products and green manufacturing. [15]

Despite several alternatives existing for rural financing in the U.S., there are certain niches that could benefit from the Program.[16] NADBank has received financing requests from rural solar financing developers (i.e., financial arms of rooftop solar developers that do not have access to securitization); SME lending institutions (i.e., local loan funds); entities that finance urban infrastructure (i.e., local housing authorities); as well as financial entities that support water and energy efficiency projects.

In Mexico, there are more than 2,000 SMFIs. Of those, about half focus their activity in sectors or services unrelated to NADBank's mandate, such as payroll, payday and working capital lending and consumer loans. The other half includes lending for equipment and the construction of new manufacturing facilities; equipment and facilities for the agricultural sector; the leasing of new equipment for transportation and manufacturing; and real estate.[17] Some of those projects could potentially be eligible under the proposed Green Loan Framework. These SMFIs are spread all over the country, and their services dominate in rural towns in which commercial banking services are limited. The majority are located in central -west Mexico, especially Mexico City, but several are active in the border states.

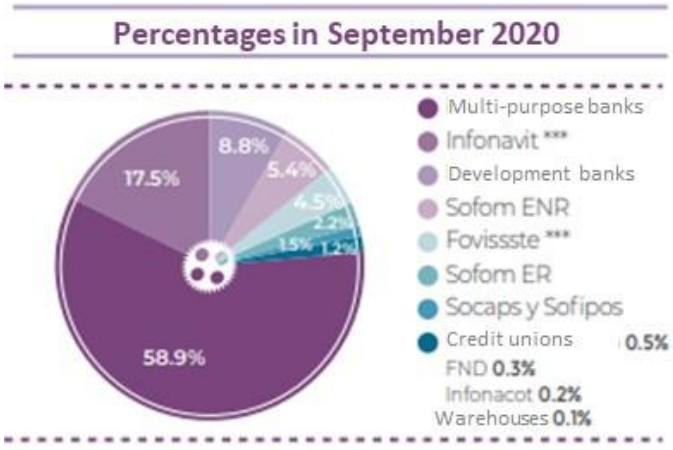
Socaps, Sofipos and Sofincos are community savings institutions that offer micro-loans to their own customers, like cooperatives. SOFOMs are non-bank financial institutions that normally rely on bank funding or securitization to raise capital. There are several lines of businesses among them, many directly related to NADBank's mandate. They normally cover markets not covered by commercial lenders.

The activities aligned to the Green Loan Framework are concentrated in loans to the agriculture sector, sustainable affordable housing, small- and medium-size businesses, and the leasing of efficient equipment. The medium and small-size SOFOMs would be the target clients for the Program, which is where greater additionality can be provided.

The Mexican Banking Commission (CNBV) reports that the total outstanding loan portfolio in Mexico by 2020 was MXN$8.8 trillion. Of this amount, 91% is on the books of the banking system (private and public) and the remaining with non-bank financial institutions. Of the latter, 5% was originated by the SOFOMs; this small percentage is very significant, however, with MX$464 billion (US$23.2 billion).[18]

---

[15] CDFI Fund, *CDFI Annual Certification and Data Collection Report (ACR): A Snapshot for Fiscal Year 2019*, October 2020.
[16] By itself, the Farm Credit System holds 44% of agricultural credit loan portfolio in the United States. for reference their September 2021 report at https://www.farmcreditfunding.com/ffcb_live/current/InvestorPresentation.pdf
[17] CNBV, *Encuesta Nacional de Financiamiento de las Empresas* [National Survey of Business Finance] and "*Encuesta Nacional de Inclusión Financiera* [National Survey of Financial Inclusion], various years.
[18] CNBV, *Ahorro Financiero y Financiamiento en México* [Financial Savings and Financing in Mexico], 2020.



Source: CNBV, Ahorro Financiero y Financiamiento en México
[Financial Savings and Financing in Mexico]*, 2020*

Most of SMFIs in Mexico rely on development banks to fund their lending operations. Most Mexican development banks prioritize second-floor lending programs to SMFIs to leverage their community impact. International financial institutions (IFIs) normally do not focus on SMFIs in Mexico. IFIs typically focus on the larger financial intermediaries, as the minimum loan ticket size is normally US$20-30 million unless the loans are under concessional financing, in which case, IFIs prioritize low-income countries. Through the Green Loan Program, NADBank will be able to provide financing under $30 million, and thus would be able to serve an increasing number of financial intermediaries interested in supporting sustainable projects.

A rough calculation was made to estimate annual demand for green loans. For Mexico, this calculation used the country's current loan portfolio to small- and medium-size businesses, narrowed to the six Mexican border states. Since the outstanding loan balance allocated to small- and medium-size businesses and the agriculture sector was equal to US$17.6 billion, the estimate for the six northern states is 24% of such amount.[19] Judging by the portfolio size in some representative SOFOMs, potential green projects would be 4%-6% of that amount, for an overall estimated amount of US$35-50 million per year.

In the case of the U.S., the market is expected to be smaller because: (i) the U.S. population in the NADBank border region is about a third of that in Mexico; (ii) financial inclusion is broader; and (iii) federal government programs to support access to capital markets in rural communities are more abundant and cheaper (i.e., tax-exempt issuances and the availability of subsidized state funding). As a simplified estimate, the requirement in the U.S. is expected to be about a fifth of that in Mexico. Therefore, the expected total demand for funds from the Program is expected to be between $40-60 million per year.

NADBank has consulted with SMFIs to explore their funding needs. In the U.S., the Bank is coordinating its outreach with local financial advisors and through its grant-funding programs, taking advantage of strong ties built over time with small communities. In the case

[19] This figure does not account for the leasing assets that some non-bank SMFIs purchase with loan-funded proceeds.

of Mexico, the Bank is reaching out to those SMFIs that are active within the Bank's region and potentially have eligible Green Projects.

SMFIs can be grouped in categories with respect to how their activity aligns with the Bank's mission: 1) sustainable agriculture, 2) sustainable transportation, 3) sustainable housing, and 4) green manufacturing. All of them have a client focus on small- and medium-size businesses and farmers, with most financing directed to small loan projects with high community impact. The following table includes a sample of SMFIs that are active within NADBank's region and have possibilities for financing projects that are eligible under the Green Loan Framework:

SAMPLE OF SMFIs WITH OPPORTUNITIES FOR COLLABORATION

Contacted	Type
Banco Inmobiliario Mexicano BIM	Bank
Liquidez Corporativa	SOFOM ENR
SANS SOUCI Grupo	SOFOM ENR
Bankers Small Business CDC of California	Pool of banks
Mex Capital Sofom	SOFOM ENR
Affordable Homes of South Texas, Inc.	Loan Fund
Financiera Kronos	SOFOM ENR
Economic Development Corporations	Loan funds in several U.S. counties
Agrocapital	SOFOM ENR
Nogaleros del Noroeste	SOFOM ENR
Border Financial Resources (BFR)	Loan Fund
Factor GFC global	SOFOM ENR
Civic San Diego ("CivicSD")	Loan Fund
Mizrafin	SOFOM ENR
Nusenda Federal Credit Union	Credit Union
Servicios Agromex	SOFOM ENR
Proactkiva	SOFOM ENR
Financiera Providencia	SOFOM ENR

APPENDIX 3
Financial Requirements for Qualification

A SMFI must comply with the following financial requirements and parameters to qualify for financing under for the Program.

Indicators	Requirement - Mexico	Requirement - U.S.
Total equity[20]	Not to exceed US$30 million	Not to exceed US$50 million
Net capital ratio (ICAP): total equity (Tier 1 + Tier 2)/risk-weighted total assets	At least 10.5%[21]	At least 9%[22]
Debt/tangible equity [debt investment fund; financial and leasing company][23]	Not to exceed [1.0; 8.0]	Not to exceed [1.0; 8.0]
Return on equity (ROE)	At least 3% average over the immediate past 3 years	At least 2.5% average over the immediate past 3 years
Non-performing loans index	Not to exceed 6.0%	Not to exceed 6.0%
Loan concentration	Loan concentration (as measured by the 10 largest loans) should be lower than 50% of total loan portfolio	Loan concentration (as measured by the 10 largest loans) should be lower than 50% of total loan portfolio
Liquidity gap [(Short-term loans amortizations + cash and cash equivalents + unused revolving facilities)/(short-term liabilities)]	Above 1.00x	Above 1.00x
Experience in business	4 years in business. For newer (subsidiary) entities, this minimum experience could be met through its holding group.	4 years in business. For newer (subsidiary) entities, this minimum experience could be met through its holding group.
Sub-loans pipeline alignment	Have provided financing and/or having a pipeline of projects eligible under the Green Loan Framework	Have provided financing and/or having a pipeline of projects eligible under the Green Loan Framework
Risk methodologies and information systems	Must have: (i) credit and risk policies; (ii) standard accounting systems	Must have: (i) credit and risk policies; (ii) standard accounting systems

[20] A SMFI is defined based on the size of its equity position, which becomes a requirement to be a Qualified Borrower.
[21] As recommended by Basle III and required by Mexico's CNVB (Article 220, General Rules applicable to banks) for Category I (i.e., does not require a corrective action plan).
[22] US-CFR Title 12 § 217.12 Community bank leverage ratio framework (https://www.ecfr.gov/current/title-12/chapter-II/subchapter-A/part-217/subpart-B/section-217.12).
[23] Fitch, *2020 Non-Bank Financial Institutions.- Rating Criteria*.

Indicators	Requirement - Mexico	Requirement - U.S.
	(NIIF/IFRS) and independent auditing; and (iii) loan reporting systems	(USGAAP/IFRS) and independent auditing; and (iii) loan reporting systems

APPENDIX 4
Program Diagram