



NORTH AMERICAN DEVELOPMENT BANK

COMMUNITY ASSISTANCE PROGRAM (CAP)

PROPOSED PROGRAM UPDATES

INTRODUCTION

The Community Assistance Program (CAP or the “Program”) was established by the North American Development Bank (NADBank) in 2011 to support critical environmental infrastructure projects for economically distressed communities in the U.S.-Mexico border region. In 2013, the Program guidelines were updated to establish a “first-come, first-serve” method for allocating funds to projects that met eligibility requirements and demonstrated financial need. A new application format with defined documentation requirements was developed, and projects were selected primarily based on readiness to proceed to construction. Since program inception, NADBank has approved 27 water and solid waste projects to receive US\$10.7 million in CAP funding.

In 2022, NADBank began exploring ways to grow the program and increase its benefits for border communities. Taking into consideration existing environmental infrastructure needs in border communities and the experience deriving from its grant operations, NADBank conducted a thorough review of the CAP, including program criteria, financing options and project selection/approval processes. As a result, the following updates are being proposed to the CAP Guidelines:

- Refocus project eligibility on investments in water and solid waste, in line with the priorities originally established for CAP;
- Establish a hybrid project selection approach targeting project impact and financial need of the community through a prioritization process that allows for continuous evaluation of new applications for projects that are ready for implementation or require development actions that may be met by NADBank technical assistance resources; and
- Create new financing options aimed at increasing the effective use of program funds to meet the evolving infrastructure needs of border communities, including an increase in the maximum grant amount and an option for emergency funding.

In addition to expressing support for the proposed program updates, the Board also addressed long-term funding for the CAP and other NADBank grant programs through the establishment of the *Environment Investment & Capacity Facility (EICF)* to manage and grow available funding for these programs. The Board authorized the transfer of the remaining balance of designated retained earnings for CAP and the Technical Assistance Program (TAP) to the EICF and directed NADBank to contribute 20% of its annual cash earnings to the EICF on a quarterly basis. Funds provided by external sources to supplement these or any other grant programs will also be managed through the EICF.

CAP UPDATE PROPOSAL
DRAFT: APRIL 19, 2023

The proposed CAP Guidelines, as well as a request for programmatic certification and financing approval for emergency funding requests, will be released for a 30-day public consultation period prior to formal Board action. At the conclusion of the public comment period and subject to satisfactory resolution of any comments received, Management will request that the Board formally approve the guidelines and programmatic certification and financing approval for projects seeking emergency funding.



NORTH AMERICAN DEVELOPMENT BANK COMMUNITY ASSISTANCE PROGRAM (CAP)

PROGRAM GUIDELINES

The Community Assistance Program (CAP or the “Program”) was established by the North American Development Bank (NADBank) to support critical environmental infrastructure projects for economically distressed communities in the U.S.-Mexico border region. Funding for the CAP and other NADBank grant programs is administered through the *Environment Investment & Capacity Facility (EICF)*.

This document provides details about program requirements, financing options and the process for requesting funds, as well as the prioritization approach applied for recommending project selection and funding approval.

ELIGIBILITY

In order to be eligible for a CAP grant, a project must meet the following criteria:

A. *Project Location*

Within the U.S.-Mexico border region, defined as the area within 100 kilometers north and 300 kilometers south of the international boundary between the United States and Mexico (the “border region”).

B. *Financial Need*

The Program is intended to support projects that may not be affordable without the participation of CAP resources. Project sponsors with the greatest financial need—for example, disadvantaged or underserved communities with a low median household income or with limited or no debt capacity—will be given higher priority for traditional CAP grant financing.¹ Additional financing options with CAP resources may be considered and are described in the Financing Options section, below.

C. *Environmental Infrastructure Need*

Infrastructure projects with a direct environmental or health benefit to a border community in one of the following categories:

Category	Infrastructure Needs
Drinking water	Supply, treatment, transmission, storage, distribution, metering, conservation, point-of-use technologies
Wastewater	Connections/on-site systems, collection, conveyance, treatment, reuse

¹ Additional detail regarding prioritization is provided in Annex A.

Stormwater	Piped systems, retention basins, culverts, canals, berms, erosion control, flow velocity control, green infrastructure
Solid Waste	Collection containers and equipment, transfer stations, landfills, site closure, infrastructure for waste stream reduction such as organic composting or recycling
Ancillary work to above sectors	Operational equipment, alternative energy source, climate change resiliency, system/source security
Innovative solutions	Innovative technologies or processes; Environmental technology pilot projects for water and solid waste needs.
Emergency infrastructure repairs	Repairs to critical infrastructure, when: <ul style="list-style-type: none">• operational failure is due to an act of nature or unforeseen external influence (e.g., earthquake, storm event, power failure/surge, vandalism), and• failure has caused or, if not repaired promptly, will cause an acute environmental or human health effect.

These projects may include the construction of new infrastructure and acquisitions, as well as investments for rehabilitation or to improve operations.

Any project receiving a grant from the Border Environment Infrastructure Fund (BEIF) is not eligible for a grant from the CAP. Additionally, project sponsors in non-compliance with any other NADBank financing agreement, such as debt service payments, reporting, reserve requirements or infrastructure performance expectations, must have an acceptable corrective action plan in progress to be eligible for CAP funding.

USES OF FUNDS AND CONSTRUCTION MANAGEMENT

Grants may be used for project construction and related costs, project management and supervision, as well as other project components, such as equipment or materials acquisition and/or installation.

NADB requires qualified supervision services to be procured by the project sponsor for every CAP project. Costs for supervision shall be included as part of the total project cost and considered an eligible use of the grant awarded. CAP projects for the sole purpose of acquiring equipment may or may not require supervision, as determined by NADBank prior to certification.

MAXIMUM GRANT AMOUNT AND PROJECT SPONSOR CONTRIBUTION

Projects may receive a CAP grant for no more than 90% of the project costs with a maximum of US\$750,000. In the case of emergency repairs, the CAP grant is limited to US\$250,000.

The project sponsor must cover at least 10% of the total project cost in the form of cash or provide evidence of cash expended for purposes of achieving the project scope proposed for certification. The sponsor contribution must be available no later than the date of project certification by NADBank and will be expended prior to or in proportion with CAP resources.

On a case-by-case basis, in-kind contributions such as design, land, equipment or other tangible assets or cost components of a project may be considered towards fulfilling this contribution.

FINANCING OPTIONS

Subject to the maximum amounts established in the preceding section, CAP funds may be awarded as a traditional non-reimbursable grant, as a component of a blended loan or to address an emergency infrastructure repair. The appropriate option will be determined based on the characteristics of the project sponsor and benefited population or the acute nature for infrastructure repair, as described below.

Funding Type	Economic Characteristics
Traditional grant	Disadvantaged or underserved community, strong financial need, no/minimal debt capacity, no/low credit rating
Blended financing	Financial need and limited credit capacity; subsidy required to achieve affordable rate and repayment structure for a high impact project; operational performance standards may be applied
Emergency need (grant)²	The sponsor has demonstrated that CAP funds are necessary as the funding of last resort to address repairs to critical infrastructure in order to prevent or mitigate an acute environmental or human health effect.

While the “emergency need” grant is intended to be non-reimbursable to NADBank, project sponsors receiving the grant will be required to establish or increase funding for a Repair and Replacement Reserve (RRR) in an amount equal to or greater than the CAP grant. Funding the RRR for future emergency needs will be required within an established time period, typically within two to three years after the CAP award, as defined in the grant agreement and taking into consideration the financial capacity of the sponsor to comply with this requirement. Documentation evidencing the appropriately funded and managed RRR will be required in order to be eligible to receive CAP grants for future projects.

APPLICATION, PROJECT SELECTION AND FUNDING APPROVAL PROCESSES

1. Application Process

An initial call for CAP grant applications will be announced by NADBank. The program guidelines and access to the on-line CAP Project Application, including a detailed list of documents required for full evaluation of the project, will be available on the NADBank website. Applicants will have a period of 90 days after the initial call to submit their applications for the initial evaluation and priority ranking process.

² For more information about the emergency need projects, see subsection 4 of Application, Project Selection and Funding Approval Process.

Once the initial set of applications has been received, NADB will review them for completeness and eligibility. Eligible applications will then be evaluated in accordance with the prioritization methodology, as described below, resulting in a ranked list of applications to be considered for project selection.

Thereafter, the project application process will remain open, and new applications may be submitted on-line at any time. Subsequent application review and evaluation activities will occur periodically. Based on the results of this review, new applications will be ranked and incorporated into the existing list of prioritized applications not yet selected for funding.

The application and funding process for Emergency Need is provided in section 4 below.

2. Project Selection

NADBank has established a method to evaluate proposed investment needs in order to prioritize the use of CAP resources. This process will result in a ranked list of applications. At least once a year and based on available resources, NADBank will select a group of applications in ranked order for further consideration in the certification and financing approval process.

Eligible CAP applications will be evaluated based on a methodology to determine the ranked order of projects from highest to lowest priority. The priority factors and maximum points available for each one is provided below. Additional details regarding the priority methodology are included in Annex A.

Max. Points	Priority Factor
40	Environmental or human health objective
25	Project readiness
20	Degree of financial need
15	Underserved community or community with environmental justice concerns

3. Funding Approval

- A. For each project selected, a certification and financial evaluation process will be conducted, including an assessment of the proposed project's compliance with the NADBank certification criteria and an analysis of financial need. Based on the results, a project certification and financing proposal will be developed, including a recommended amount of CAP funding.
- B. The proposed project will require approval by NADBank's Board of Directors. Prior to submitting the proposal to the Board, the project will go through an internal committee approval process and be published for a 14-day public comment period.

- C. The period from Board certification and CAP funding approval to the signing of the grant agreement shall not exceed three (3) months. The period from grant signing to the initiation of project implementation shall not exceed six (6) months. Projects that do not comply with these deadlines will be subject to cancellation.
- D. NADB's procurement policies and procedures shall apply to all CAP projects, including project design, construction, equipment acquisition and construction management.
- E. CAP projects will be evaluated in a post-construction project closeout process, which will require participation of the project sponsor and the availability of documentation related to project performance.

4. Process for Emergency Need Projects

- A. Application. A simplified on-line application will be available on the NADBank website to request CAP funds for up to US\$250,000 to address an emergency need. Based on its established standards and practices, NADBank will review each emergency need application to ensure the funding request meets the definition of an emergency need and that in the application the sponsor has attested to the following:
 - i. the operational failure of critical infrastructure is due to an act of nature or unforeseen external influence (e.g., power failure/surge, vandalism);
 - ii. the failure has caused, or if not repaired promptly, will cause an acute environmental or human health effect;
 - iii. no other sources of funds are immediately accessible to address the emergency repair; therefore, CAP funds are necessary as the funding of last resort; and
 - iv. an appropriate reserve, at least equal to the CAP grant amount, will be funded in accordance with the terms and conditions of the financing agreement.
- B. Due-diligence Review and Approval Process. Each CAP emergency need project will be subject to the regular NADBank due-diligence review process to ensure:
 - i. the project complies with the eligibility and certification criteria required for project approval, including any applicable regulatory requirements.³
 - ii. If implemented, the project will fully address the acute environmental or human health effect requiring the repair or replacement of infrastructure, preferably as a permanent solution but at least until a more permanent investment can be completed.

³ The Board of Directors may take specific action to authorize an expedited approval process to facilitate timely access to emergency need funding in order to address critical infrastructure repairs promptly and prevent or mitigate the negative effects of the operational failure (see Annex B). In the event that a programmatic approach to certification and financing approval for emergency need is not authorized, interested project sponsors may obtain CAP funds for these types of repairs through the certification and financing approval process applied to all other CAP grant requests.

During this process, a timeline for the sponsor to fund its own Repair and Replacement Reserve for an amount at least equal to the CAP grant will be established and included in the CAP grant agreement.

- C. Closeout Activities. Similar to other CAP-funded projects, each emergency need project will be evaluated in a simplified post-implementation closeout process. Additionally, NADBank will perform a year-end evaluation of the CAP funds used for this purpose, as well as review sponsor compliance with the establishment and funding of the required reserve accounts.

PROGRAM REPORTING

NADBank will present a summary of CAP activities and funding availability in the quarterly status report presented to the Board of Directors and at each meeting of the Board.

ANNEX A: PRIORITIZATION CRITERIA

Environmental and Human Health

Points	Drinking Water (DW)	Wastewater (WW)/Stormwater	Solid Waste (SW)
40	<ul style="list-style-type: none"> Provide first-time access to drinking water. Improve drinking water quality to meet appropriate regulatory standards. Augment water supply or storage capacity to achieve regulatory standards for existing demand. <p>Access can be provided by centralized or point of use system and may consider innovative technologies for pilot project applications.</p>	<ul style="list-style-type: none"> Provide first-time access to WW collection through adequate on-site or centralized systems. Provide first-time access to WW treatment. Address transboundary environmental impact due to untreated WW discharges or stormwater. 	<ul style="list-style-type: none"> Address transboundary environmental impact due to conditions of solid waste site/facility. Proper site closure of dumpsite or landfill.
30	<p>Address inadequate or deteriorated conditions causing:</p> <ul style="list-style-type: none"> recurring service interruptions, water loss > 25% or frequent line breaks throughout the project area, or insufficient pressure. 	<ul style="list-style-type: none"> Address inadequate or deteriorated conditions that threaten the environment or human health. Address absence of or failed stormwater infrastructure affecting the integrity of community infrastructure. 	<ul style="list-style-type: none"> Provide first-time access to solid waste services: <ul style="list-style-type: none"> new landfill capacity, new transfer station, or collection equipment for unserved area Diversion of organic waste (food & yard trimmings) from landfills
20	<ul style="list-style-type: none"> Reduce demands on or supplement drinking water sources (metering, conservation efforts, loss reduction). Implement security measures for water source and drinking water system. 	<ul style="list-style-type: none"> Add/improve conveyance or treatment capacity. Implement wastewater reuse scheme. Purchase O&M equipment Enhance climate change resiliency, system security 	<ul style="list-style-type: none"> Provide additional/improved waste management capacity Landfill equipment. Waste reduction efforts (recycling, reuse)
10	<p>Reduce energy consumption (efficiency or alternative energy source)</p>	<p>Reduce energy consumption (efficiency or alternative energy source)</p>	<p>Replace collection equipment or containers</p>

Project Readiness

Points	Criteria	Indicators
25	Readiness for certification \leq 6 months	<ul style="list-style-type: none"> Final design complete Environmental requirements addressed Land and right of ways secured Other funding commitments secured
15	Readiness for certification \leq 1 year	<ul style="list-style-type: none"> Final design or other required technical development task pending Pending environmental authorization Gap in financial package
0	Readiness for certification $>$ 1 year	

Degree of Financial Distress

Points	U.S. Indicator Local Medium Household Income (MHI)	Mexican Indicator Degree of marginalization*
20	\leq 50% of the state MHI	Very high
15	\leq 75% of the state MHI	High
10	\leq 90% of the state MHI	Average
5	$<$ 100% of the state MHI	Low
0	\geq 100% of the state MHI	Very low

* National Population Council of Mexico (CONAPO), https://www.gob.mx/cms/uploads/attachment/file/685354/Nota_tecnica_IMEyM_2020.pdf

Underserved Community or Community with Environmental Justice Concerns

Characteristics of Community to Be Served by Project*	Points	
A. Population under 5,000. B. Identified indigenous population or community. C. Population under the age of 4 plus the population older than 65 is > 25%. D. Currently experiencing high to severe drought conditions.	15	At least 5 of these characteristics exist.
E. Located within 5 km of hazardous waste site, uncontrolled dump site, wastewater treatment plant, wastewater discharge location. F. Exposure to harmful pollutants demonstrated by at least one of the following: ▪ Non-compliant air quality ▪ Elevated exposure to criteria pollutants ▪ Located within 5 km of industrial facilities ▪ ≥ 2/3 homes in project area built before 1960 (lead)	10	At least 3 of these characteristics exist.
G. Critical service gaps (public transportation, broadband, food desert, medical facilities).	5	Less than 3 of these characteristics exist.

*To assure that this prioritization factor can be applied to applicants in the U.S. and Mexico, similar characteristics for identifying disadvantaged communities or communities with environmental justice concerns were selected from tools such as EPA's Environmental Justice Screening Tool and Justice40 Initiative implementation guidance, as well as data collected by Mexican National Institute of Statistics and Geography (INEGI) and CONAPO's Index of Marginalization.

**ANNEX B:
BOARD RESOLUTION 2023-XX**

**CERTIFICATION AND FINANCING COMMITMENT
CAP EMERGENCY NEED PROJECTS**

Whereas the Bank established the Community Assistance Program (CAP) to support critical environmental infrastructure projects for economically distressed communities in the U.S.-Mexico border region; and

Whereas, pursuant to Board Resolution 2023-XX, the Board approved the use of CAP funds to address emergency needs resulting from operational failures due to acts of nature or unforeseen external influences that require immediate repair to avoid acute environmental or human health effects; and

Whereas, by definition, these emergency needs require an expedited response in order to achieve the objective of avoiding injury to the environment or human health; and

Whereas the CAP Guidelines approved by the Board pursuant to Board Resolution 2023-XX establish clear criteria for the identification of emergency needs eligible for CAP funding, and certification of the projects meeting these eligibility requirements has been endorsed by the Bank's Chief Environmental Officer; and

Whereas, based on the information presented and after taking into account the results of the public comment period conducted pursuant to Bank procedures, the Board of Directors has determined that projects meeting the emergency need eligibility requirements established in the CAP Guidelines are ready for certification and financing;

NOW, THEREFORE, the Board of Directors hereby **RESOLVES** as follows:

1. Projects meeting the eligibility criteria for emergency need funding under the CAP Guidelines are hereby certified.
2. A Financing Commitment in the amount of up to US\$2,000,000 is approved for emergency need funding under the CAP, with individual grants limited to US\$250,000.
3. The Managing Director and Chief Environmental Officer must ratify each emergency-need request to confirm that it meets the requirements of the CAP Guidelines.
4. The Managing Director and Chief Environmental Officer will report any emergency need application upon receipt to the Board and will report any CAP emergency need grant approval to the Board within 15 business days of such approval and as part of the status report presented each quarter to the Board with a description of the use of funds and related environmental and human health outcome.