Water Resiliency Fund Proposal

Published: June 19, 2025

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1. Introduction

The U.S.-Mexico border region has historically faced water scarcity due to its semi-arid to arid climate. In the 21st century, stress on limited water resources has increased as a result of demographic and economic growth, recurring droughts and chronic underinvestment. This issue is expected to intensify under a business-as-usual trajectory, driven in part by growing economic integration between the two countries and more frequent, severe drought conditions.

Water scarcity and prolonged droughts have already had significant impacts on communities and agriculture. For example, flows in the Colorado River—the primary water source for the Tijuana-San Diego region, as well as key agricultural communities on both sides of the border—are nearly 20% below historical averages. This situation has led to declining water levels at Lake Mead—one of the main reservoirs of the river—which was at just 33% of capacity at the end of 2024. As a result, 2024 saw reductions in water deliveries: 18% for Arizona, 7% for California, and 5% for Mexico.

A similar situation exists in the Rio Bravo/Rio Grande basin, where reservoirs such as Amistad were as low as 24% of capacity in 2024. The State of Texas estimates a shortfall of 10-11 million acre-feet in meeting its freshwater supply goals, largely due to declining flows in the Rio Grande River. Some communities and irrigators that depend on groundwater aquifers are also experiencing declining water tables and, in some cases, deteriorating water quality due to over-extraction.

The problem is further exacerbated by the fact that many communities and agricultural districts rely on a single water source, increasing their vulnerability to drought. For example, cities in Baja California rely almost exclusively on water from the Colorado River, while certain irrigation districts in Texas are similarly dependent on the Rio Grande—both of which are experiencing ongoing reductions in flow. Moreover, water reuse remains low across the region, representing a missed opportunity to diversify and augment water supplies.

Inefficiencies in water use are also widespread. Physical losses from leaking infrastructure can reach up to 40% in some Mexican municipalities, while irrigation efficiency in the agriculture sector can be as low as 50%. Furthermore, in many cases water is used to grow water-intensive, low-value crops such as cotton.

The interplay between agricultural and municipal systems is a critical factor in water management in some areas. These sectors are deeply interconnected, often competing for the same sources of water while also offering opportunities for mutual benefit. For example, improvements in agricultural efficiency can reduce pressure on shared resources, indirectly enhancing municipal supply reliability. Conversely, water reuse infrastructure developed for cities can sometimes be adapted to support agricultural needs, especially during periods of drought. A case in point is the Rio Grande Valley in Texas, where irrigation districts and municipalities often share canal infrastructure and pumping systems to distribute water from

the Rio Grande. This arrangement highlights the potential for cross-sector collaboration to optimize existing infrastructure and improve overall system resilience.

Water conservation also plays a critical role in supporting binational commitments under the 1944 Water Treaty between the United States and Mexico. The treaty governs the allocation of water from the Rio Grande and the Colorado River, requiring both countries to deliver specified volumes annually. However, recurring drought and declining flows have made it increasingly difficult to meet these obligations. Strategic investments in conservation, including reducing water losses and improving irrigation efficiency can help both countries meet treaty requirements more reliably. These measures not only enhance local resilience but also reduce diplomatic tensions that can arise when delivery shortfalls occur, reinforcing the value of conservation as both a local and international priority.

Investment in much-needed infrastructure has been constrained by several factors, including inadequate planning, limited affordability and revenue-generation capacity, institutional constraints, aversion to debt and a shortage of grant funding.

As stated in North American Development Bank (NADBank or the "Bank") 2024–2028 Strategic Plan, addressing water supply issues is the top priority of the Bank, which includes closing the remaining gaps in access to basic drinking water and wastewater infrastructure, as well as promoting water conservation and diversification of supply sources.

NADBank has a successful track record of supporting communities in meeting water infrastructure needs through a range of financing mechanisms, including direct loans to public, private and public-private projects; green loans at the state level to support multiple initiatives; and grants through the Border Environment Infrastructure Fund (BEIF) funded by the U.S. Environmental Protection Agency (EPA) and the NADBank Community Assistance Program (CAP). NADBank has also provided technical assistance and coordinated funding from multiple sources. Past targeted programs—such as the Water Conservation Investment Fund (WCIF) and the Low-Interest Rate Lending Facility (LIRF)—offered vital support for irrigation districts and enabled accelerated investment in municipal water infrastructure where financial capacity was limited. A summary of these programs is presented in Annex 1.

To strengthen water resilience for both municipal and agricultural users in the border region, innovative financing mechanisms that build on past successes and address persistent challenges must be developed. Management believes that a prudent, financially sustainable deployment of resources can spur investments that alleviate water stress across the region.

This document builds on the ideas and ensuing Board discussions of the reports by Management—*Water Conservation and Diversification Initiative* (November 2024) and the *Water Resiliency Investment Fund Proposal* (February 2025)—as well as additional analysis on how to best focus the work of the Bank. This report ratifies the proposed establishment of the Water Resiliency Fund (WRF or the "Fund"). The WRF would be governed by the guidelines contained herein and allow NADBank to deploy a mix of grant financing, low-interest loans and traditional development asset financing in support of water conservation and diversification infrastructure for agricultural and municipal use.

2. WRF Objectives

The primary objective of the WRF is to address critical financing gaps for infrastructure projects that strengthen the resilience of water resources in the U.S.-Mexico border region. Under the Fund, the Bank will prioritize initiatives that support water conservation and the diversification of supply sources, with the overarching goal of promoting a more efficient use of limited water resources and enhancing the capacity of the region to withstand droughts and other extreme climatic events.

Aligned with its 2024-2028 Strategic Plan, NADBank intends to deploy available capital in a prudent, financially sustainable manner that spurs investments to alleviate water stress in the region. The Fund will be capitalized with a designated portion of the retained earnings of the Bank, while upholding sound financial management principles and preserving institutional strength.

To maximize impact, the Bank will seek to leverage WRF resources—traditional or conditional grants, low-interest loans or blended financing—by combining them with complementary programs and funding sources. This collaborative approach is designed to enhance the overall investment ecosystem and accelerate the implementation of high-priority water infrastructure projects.

In addition to leveraging funding, NADBank has several strategic advantages that support the effective implementation of water resiliency projects:

1. **Extensive regional expertise and long-standing stakeholder relationships** – NADBank maintains strong ties with key public and private stakeholders throughout the U.S.-Mexico border region, enabling it to facilitate collaboration and align investments with regional priorities.
2. **Project development and technical support** – The Bank provides assistance to project sponsors throughout the development and implementation of their projects, including support with design, feasibility and financial structuring through its technical assistance programs.
3. **Binational convening power** – As a trusted cross-border institution, NADBank has the capacity to call upon relevant stakeholders from both countries, helping to align interests, build consensus and unlock joint funding opportunities.
4. **Robust due-diligence processes** – NADBank conducts rigorous technical, environmental, financial and legal evaluations to ensure the viability, sustainability and impact of its investments.

To address the technical, financial and institutional barriers that hinder the implementation of critical water projects, the Fund must provide innovative financing tools that enhance water security while ensuring affordability for beneficiaries. The proposed financing options are described in Section 3(D).

3. WRF Procedures and Guidelines

A. Project Location

Eligible projects must be located 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 two countries (the "border region"). Pursuant to its Charter, NADBank may address a project outside the border region upon a decision by the Board of Directors that the project would remedy a transboundary environmental or health problem.

B. Eligible Sponsors

NADBank should engage with different types of organizations to finance innovative investment effectively.

Table 1

Category	Sponsors
Public entities	- Water utilities - Towns, municipalities, counties - States - Mexican federal entities, such as the Mexican National Water Commission (CONAGUA)
Private entities	- Agricultural water users, including cooperatives - Private concessionaires
Mixed entities	- Private-public partnerships and joint ventures - Financed public works (*obras públicas financiadas*) - Irrigation districts or authorities

C. Project Types

Water infrastructure projects that enhance water resiliency, including diversification of sustainable water resources and conservation in municipal and agricultural use, are eligible for funding through WRF.

Table 2

Category	Infrastructure Types
Water resources diversification in municipal systems	1. New construction or improvements to existing water supply sources that are currently not utilized, optimized or operated efficiently, such as wells, treatment facilities and conveyance infrastructure. 2. Development of new surface or groundwater sources, including capture, treatment and conveyance infrastructure, subject to a determination of sustainable yield and water rights. 3. Facilities for water reuse (including non-potable and indirect potable reuse), such as new or improved wastewater or water treatment plants and conveyance infrastructure. 4. Facilities for the use of impaired-quality sources, such as brackish or contaminated groundwater and seawater, including treatment, desalination and conveyance. 5. Stormwater capture and reuse, including infiltration basins, surface reservoirs and necessary treatment and conveyance infrastructure.
Water conservation in municipal systems	1. Rehabilitation of existing infrastructure leading to water conservation and reducing unaccounted-for water, such as leaky pipes, storage tanks or other facilities. 2. Municipal infrastructure, equipment or systems that enhance conservation and reduce unaccounted-for water, such as water meters and water fixtures, telemetry systems, etc.
Water conservation in agriculture	1. Rehabilitation of infrastructure and other improvements aimed at reducing water losses and promoting more efficient water use, including lining canals, converting canals to pipelines, land grading, drainage infrastructure, facilities to reuse or recirculate water and storage facilities to reduce losses. 2. Infrastructure and equipment that promote more water-efficient agricultural practices, such as modernizing irrigation systems (e.g., replacing flood irrigation with drip irrigation). 3. Equipment to control water use and facilitate conservation, such as automated gates and telemetry.

Water conservation or diversification projects in small communities that may be eligible for a CAP grant will be considered for NADBank funding through that program.

D. Financing Options

Eligible projects under the WRF may be financed through a combination of grants and low-interest rate loans. In addition, NADBank may complement these instruments with its traditional, commercially based financing to broaden the scope and impact of available funding.

Grant Financing

Traditional grants are designed to support projects that may not otherwise be viable through commercial lending alone, particularly in communities with limited financial capacity or where the environmental and social benefits are especially significant. They are non-reimbursable funds that are generally structured to mature one year after project construction and often come with limited conditions regarding the long-term performance of the sponsor. While grants can detonate important projects, their structure may pose challenges for ensuring sustained operation and maintenance (O&M) over time, as there is usually limited recourse if a project underperforms.

Conditional grants, in contrast, tie the financial concession to the achievement of specific performance targets. Under this model, key performance indicators (KPIs) are agreed upon at the outset, typically with a multi-year implementation and monitoring period. If the project sponsor does not meet these KPIs, a portion or even all the proceeds will be required to be reimbursed to NADBank. This approach not only provides financial support but also incentivizes long-term success and sustainability.

The choice of instrument—and the proportion of non-reimbursable funds—will depend on a variety of factors, including the expected water savings and environmental impacts, affordability and the institutional capacity of the sponsor. These factors will be integrated into a structured project evaluation and ranking process, as described in the next section, to guide the selection and design of financing packages.

Low-interest Rate Loans

These loans will provide affordable financing for communities that possess some repayment capacity but are unable to meet the scale of their water infrastructure needs through conventional lending. The goal is to make essential investments feasible while maintaining long-term financial sustainability. This form of financing is especially suitable for projects with strong institutional sponsors that can manage repayment obligations but require support to close affordability gaps or enhance the feasibility of the project.

Low-interest rate loans are fully repayable but are offered at terms below prevailing market rates. These terms may include zero interest or interest rates that are reduced by several percentage points, depending on the project's potential to generate meaningful environmental benefits. The extent of the interest rate reduction would be determined by using a sliding scale linked to the anticipated positive impact of the project, such as water conservation, increased resilience to drought or equitable access to water services.

Commercial Long-term Funding

NADBank Ordinary Capital Resources will continue to be available to finance water projects at market rates, with no changes anticipated to this funding mechanism. Wherever feasible, the Bank will prioritize the use of these resources before deploying concessional financing or low-interest loans.

Projects incorporating innovative financial structures to attract private investment may be eligible for subordinated loans or quasi-equity investments, in line with NADBank's Financial Operating Policy. In such cases, NADBank will ensure that any concessional terms are limited to the minimum necessary to make the project viable.

The choice of financing instrument—and the proportion of concessional financing in the overall financing package—will depend on several factors, including the financial capacity of the project sponsor, the expected impact on water conservation or the development of new water sources, and the Bank's available resources at the time of funding. Ideally, WRF funds will be structured to complement NADBank commercial financing and/or attract co-financing from other public or private entities, helping to maximize the reach and impact of the investments. Contractual instruments will be tailored to each type of financing, taking into account the nature of each particular operation.

E. WRF Funding

Funding for the WRF will be sourced from two distinct streams based on the nature of the financial instrument being offered: one for concessional financing and another for low-interest loans. Both will operate alongside NADBank's existing "Financial Instruments," as defined in section 3 of the NADBank Financial Operating Policy, which include direct loans, bonds, subordinated debt, quasi-equity and guaranties, among others. The applicable interest rate will be based on the "Interest Rate and Return," as defined in section 5.4 of the NADBank Financial Operating Policy.

Funding for Grants

As of year-end 2024, NADBank had over US$330 million in retained earnings. Of this amount, up to US$100 million is proposed to be allocated for grant financing under the WRF over five years. These funds will be drawn from its Ordinary Capital Resources and allocated to the Environmental Investment and Capacity Facility (EICF), a dedicated vehicle designed to support strategic, mission-driven investments that cannot be financed through traditional lending mechanisms.

Funding for Low-interest Loans

Management proposes up to US$300 million for this component of the Fund. Low-interest loans offered under the WRF will not require capital transfers from the Ordinary Capital Resources to the EICF. These loans will be funded and accounted for as traditional development assets.

F. Implementation Strategy

Investment needs in the border region for water conservation and diversification—across both agricultural and municipal uses—are vast and exceed the availability of grants and other concessional financing. Management recommends prioritizing the agricultural sector in both countries for the first wave of funding based on several key considerations.

It is important to note that the political, legal and water right systems in each country, with respect to agriculture, are very different, and thus a differentiated approach is being considered. As appropriate, NADBank will consult and coordinate with the U.S. and Mexican Sections of the International Boundary and Water Commission (IBWC/CILA), and other national and local authorities.

In Mexico, three recently published federal policies align strongly with WRF objectives and create opportunities to leverage additional resources:

- *Plan Nacional Hídrico 2024–2030* [2024-2030 National Water Plan]
- *Acuerdo Nacional por el Derecho Humano al Agua y la Sostenibilidad* [National Agreement on the Human Right to Water and Sustainability]
- *Programa Nacional de Tecnificación de Riego* [National Irrigation Modernization Program]

Under the last of these policies, the Mexican federal government plans to mobilize approximately $57 billion pesos (around US$7.8 billion) to improve irrigation infrastructure and practices. Four irrigation districts along the border have been prioritized, three of which are in the Rio Grande/Rio Bravo basin. Strategic investments in these districts, particularly in the Rio Conchos, will enhance the capacity of Mexico to meet its delivery obligations under the Water Treaty.

Notably, these policies include the revision of water concessions to relieve pressure on existing resources and support potential transfers to municipal use, as well as requiring a 50% contribution from users and/or local governments. Collaborating closely with the Mexican federal government will support two core WRF goals: (1) ensuring that conserved water is not used to expand irrigated areas, and (2) securing the 50% matching contribution required for all WRF investments.

In the United States, urgent conservation investments are also needed in the Rio Grande Valley (RGV) in Texas, where prolonged drought conditions have significantly reduced river flows, impacting both agriculture and municipal water deliveries. Conservation efforts in the RGV will improve resilience throughout the river system and complement investments in Mexico in the Rio Conchos basin.

Therefore, for the first phase of funding, it is recommended that the WRF prioritize agricultural projects within the Rio Grande basin, as this approach addresses urgent needs in both Mexico and the United States while also supporting compliance with the 1944 Water Treaty. By initially focusing on agriculture, the Fund can target high-impact opportunities for conservation and water use efficiency, where there is both demonstrated need and a policy environment conducive to success. The proposed selection process is described in more detail in Section 3(H).

To ensure balanced support throughout the border region, it is recommended that the available funding be divided equally between Mexico and the United States, with 50% allocated to projects in each country. As additional funding becomes available in future phases, WRF priorities should be revisited to determine whether continued focus on agricultural projects is warranted or whether to expand support to include municipal water use based on evolving needs and opportunities.

G. Technical Support and Capacity Building

All project sponsors will be required to establish KPIs to measure their operational and financial efficiency. Compliance with these indicators could be used to maintain or seek future concessional financing.

In addition, NADBank will require sponsors to send staff to its Utility Management Institute (UMI). Although no immediate changes to this program are anticipated, NADBank will update the program so that it evolves to provide up-to-date practices to its water clients.

Specific technical assistance could be offered to support overall water planning and projects that lack elements needed for financing, such as final designs or legal structuring. This assistance would be funded through the NADBank Technical Assistance Program (TAP). At this time, TAP resources are adequate.

H. Project Identification and Selection

The project identification and selection process will vary depending on both the sponsor and project type, given the significant differences among eligible sponsors in terms of the availability of other funding sources, willingness and ability to commit to the WRF requirements and affordability, among others.

Water Conservation in Agriculture in Mexico

In Mexico, projects should be selected strategically and in close coordination with federal programs and state governments. This collaboration will help ensure that WRF investments align with national priorities and can leverage matching resources from states and users, as required by the Fund. Working alongside Mexican federal agencies will also support essential complementary measures, such as the revision of water concessions and improved enforcement mechanisms, which are essential to achieving long-term water sustainability.

Working jointly with the Mexican federal government and States will be critical given the potential difficulties in modifying water concessions and enforcing compliance, ensuring that the conserved water is used for previously agreed purposes (such as aquifer preservation, environmental protection or human consumption), monitoring compliance with the requirement to free up water concessions and achieve other KPIs, mobilizing financial and political support from state and local stakeholders and obtaining the required match of at least 50%.

The Bank has already met with CONAGUA and the Ministry of Agriculture and Rural Development (SADER) to define joint participation in one or more of the four irrigation

districts in the border region. Three of these districts are in the Rio Grande/Rio Bravo basin and one in the Colorado River basin. While investments in any of these districts could have significant benefits, one district in particular—Distrito 005 in the Río Conchos (part of Rio Grande/Rio Bravo basin)—is particularly relevant in the context of the Water Treaty, since historically about half of deliveries Mexico makes under the treaty have come from this tributary.

The Bank will work jointly with the federal government to establish the total investment amount, funding contributions from each party (including state and local stakeholders), eligible investments, anticipated benefits (particularly the amount of water to be conserved), necessary modifications to existing water concessions, the definition of other potential KPIs (including adequate operation and maintenance budgets and reserves) and requirements with respect to enforcement, monitoring and reporting. Likewise, the Bank may opt to include a condition for the use of funds within a specified period of time, such as 24 months.

In addition to coordinating with the federal government, NADBank has been working with several state governments regarding the development of investment programs in the water sector, including in the conservation of agricultural water. Some of these efforts may take the form of sustainable bonds.

Water Conservation in Agriculture in the United States

In the United States, the first phase of funding would begin with investments in the Rio Grande Valley in Texas. The region is facing significant water stress due to the ongoing drought, which is affecting both agricultural productivity and municipal water supply. Conservation efforts in the RGV will improve the resilience to hydrological variability in the region and complement efforts on the Mexican side of the border, particularly those in the Rio Conchos basin.

There are 26 irrigation districts in the RGV, all of which face similar challenges in terms of diminished supplies, coupled with aging infrastructure that results in losses. In addition, many of these districts convey water to municipalities and, in some cases, water delivered through agricultural infrastructure is the sole source for the communities.

In ongoing conversations with multiple stakeholders in the region, the Bank has identified irrigation districts with project pipelines and some level of funding secured from federal or state sources. However, they face difficulties coming up with the remaining funds due to low revenue generation, lack of guarantees or other obstacles that make projects bankable. Through the WRF, the Bank will be in a position to fill these gaps via impact or low-interest loans.

Furthermore, NADBank is currently providing technical assistance funds to four counties in the RGV to identify and advance solutions to the ongoing water crisis, including the development of new, non-conventional sources of water and conservation. This effort is evaluating synergies between agricultural and municipal users for the development of shared infrastructure. In addition, the Bank has been in contact with the Texas Water Development Board (TWDB) to identify co-funding opportunities.

Projects in the RGV will be selected through a competitive process to maximize the impact of investments in terms of increased water conservation, taking into consideration cost-effectiveness and the feasibility of implementation. An initial request for proposals (RFP) will

be issued for the first phase of funding. Subsequent RFPs may be issued as additional funding becomes available based on the rate of Fund replenishment.

The following ranking criteria will be used to select projects for water conservation in agriculture in the United States.

Table 3

Ranking Criteria	Indicator
Cost-effectiveness	Cost per unit of water conserved ($/m^3)

Environmental benefit	• Amount of water conserved (as volume or as percentage)
	• Intended use of conserved water:
	  ○ Preserve aquifer
	  ○ Preserve reservoir storage levels
	  ○ Transfer to municipal use
	  ○ Maintain ecological flow

Funding status (Co-financing available)	Secured funding:
	  ○ High: ≥ 50% of project cost
	  ○ Medium: <50% of project cost
	  ○ Low: No funding secured

Project readiness	• *High*: ≤ 1 year to certification readiness. Final design complete and approved by relevant regulatory agency, environmental review and permits obtained. Land and rights of way obtained • *Medium*: ≤ 2 years to certification readiness. Final design or other technical task under development / technical assistance may be required. Pending environmental authorization • *Low*: Significant technical work and environmental review pending

Municipal Water Conservation and Diversification

The types of projects and sponsors for water conservation and source diversification, in both countries, are very diverse, and virtually all municipalities in the border region face water supply vulnerabilities due to increasing demand driven by population and economic growth and diminishing water sources.

To maximize the impact of the Fund, municipal projects will be selected through a competitive process based on the ranking criteria shown below. The timing of the first RFP will depend on the availability of WRF funds following the first wave of funding for agriculture projects as described above.

Table 4

Ranking Criteria	Indicator
Environmental benefit	• Volume of "new" water • Degree of diversification achieved
Cost-effectiveness	Cost per unit of water produced ($/m^3)
Funding status (Co-financing available)	Secured funding: o High: >50% of project cost o Medium: <50% of project cost o Low: No funding secured
Project readiness	• *High*: ≤ 1 year to certification readiness. Final design complete and approved by relevant regulatory agency, environmental review and permits obtained. Land and rights of way obtained • *Medium*: ≤ 2 years to certification readiness. Final design or other technical task under development / technical assistance may be required; pending environmental authorization. • *Low*: significant technical work and environmental review pending
Financial stewardship of sponsor	• Percentage of unaccounted-for water • Water rate structure that encourages conservation

I. Determination of Composition of NADBank Financing

For top-priority projects, NADBank will perform a comprehensive financial analysis to assess the debt capacity, investment strategy and cash flow generation potential of the sponsor. This assessment will consider the following factors:

1. Capital costs of the project
2. Operating and maintenance expenses
3. Current operating and administrative costs
4. Existing revenue and debt capacity, evaluated through metrics such as:
    a. Project investment cost (excluding proposed loan) / operating cash flow
    b. Total debt service / operating cash flow
5. Projected future revenue
6. Capacity and ability to adjust water rates or leverage other revenue streams
7. Identified funding sources
8. Capacity and ability to operate and maintain the infrastructure financed

Based on the findings, NADBank will determine the level of grant or low-interest financing required to ensure the financial viability of the project.

In all cases, the preferred financing structure will be low-interest rate loans or conditional grants, where the concessional benefit is distributed over time and linked to the achievement of agreed-upon KPIs. If only low-interest loans are required, NADBank will similarly look to tie the interest rate benefit to performance-based KPIs. Traditional grants will only be considered when absolutely necessary.

It should also be noted that in Mexico all WRF financing operations with public entities must comply with the provisions of the Mexican Financial Discipline Law for States and Municipalities.

J. Key Performance Indicators Linked to Financing

Once the amount and terms of concessional financing are established, NADBank will define KPIs that must be met by the project sponsor to access the full benefits of the low-interest loan or conditional grant. These KPIs will be included as performance covenants in the contractual agreements. In addition, all projects will include explicit covenants regarding adequate operation and maintenance budgets and appropriate reserve accounts to ensure the long-term sustainability of the infrastructure. Performance will be monitored semi-annually or annually. Potential KPIs are presented in the following table.

Table 5

Key Performance Indicators by Sector	
Agricultural Projects	**Municipal Projects**
a. Volume of water conserved b. Verifiable commitment to free up water concessions and retain conserved water in aquifers, reservoirs or for ecological flows for a specified period c. Partial or full transfer of conserved water to a municipal user for a specified period d. Institutional strengthening measures, such as: • Improved water metering • Implementation of rate increases • Adequate reserves for maintenance and replacement	a. Improvements in physical and commercial efficiency b. Reductions in per capita water use c. Expansion or enhancement of metering d. Adoption of adequate rate structures e. Establishment of adequate reserves for maintenance and replacement

K. Project Certification and Consideration

All project proposals requesting funds under the WRF will be evaluated by NADBank Management and staff in accordance with existing due-diligence standards. Each proposal will be presented to the Board of Directors under the regular certification process and will include a justification for the use of concessional or low-interest financing.

Projects funded through WRF are not eligible for consideration under the Water Investment Program (WIP) at this time.

L. Fund Evaluation and Reporting

NADBank will administer projects funded under WRF with the same rigor and following the same procedures and due-diligence processes currently used for all loans and grants. These processes include identifying and reporting on the environmental benefits expected from each project by means of a results measurement matrix and preparing a closeout report summarizing the results of the project after the first year of operation.

The Asset Management Department will monitor all project covenants, including compliance with any KPIs stipulated as part of the concessional financing.

The sponsor will commit to providing information on the use of the grant and/or loan proceeds to identify the environmental benefits and verify compliance with any established KPIs related to concessional financing. NADBank and the sponsor will agree on the terms of such reporting based on the type of project, the disbursement period and the end of the financing implementation period.

NADBank Management will provide a general report of the projects financed under the WRF and its estimated environmental benefits as part of the NADBank quarterly status report.

4. Public Consultation

The WRF proposal will be released for a 30-day public consultation period prior to formal Board action. NADBank Management will report on any comments received.

5. Management Recommendations

At the conclusion of the public comment period, and subject to satisfactory resolution of any comments, Management will request that the Board:

1. Approve the WRF in accordance with the guidelines established herein.
2. Authorize:
    a. The transfer of up to US$100 million from retained earnings in the Ordinary Capital Resources to the EICF for the purpose of providing grants for eligible projects under WRF, without jeopardizing the Bank's financial strength; and
    b. The use of up to US$300 million in Ordinary Capital Resource to fund low-interest-rate loans for eligible projects.

Annex 1:
Summary of WCIF AND LIRF

In addition to individual projects, the Bank has implemented programs that help address other water needs by providing the means for concessional financing.

Water Conservation Investment Fund (WCIF)

In 2002, the Bank created the WCIF to provide grants for projects that conserve water in agriculture. The program was funded with US$80 million from NADBank retained earnings, with 50% allocated to each country. Under the program guidelines, U.S. projects could receive grants of up to 50% of the cost of the project, with a cap at US$4 million per project. For projects in Mexico, the grants could cover 100% of the project cost, and there was no cap.

The WCIF funds were fully deployed for 22 projects in the U.S. and one project in Mexico. In the U.S., NADBank provided a total of US$38.3 million in grants to complement US$49.9 million in other investments, while a US$40-million grant went to fund the project in Mexico, complementing an additional investment of US$103.6 million from Mexico.

Projects financed through the WCIF included investments for lining irrigation canals, land grading, drainage, interconnections, pipelines and pump stations. The project implemented in Mexico (Chihuahua) was expected to achieve water saving of over 248 million cubic meters (200,000 acre-ft) a year, equivalent to the water consumption of a city of 2.3 million people. The 22 projects in the U.S., in aggregate, were expected to achieve water savings of over 209 million cubic meters (170,000 acre-ft) a year, equivalent to the water consumption of a city of 1.9 million people.

The WCIF was successful in implementing much needed water conservation projects; however, the following findings should be considered in the design of similar programs in the future:

1. Blended finance is an effective way to leverage resources. WCIF was able to leverage over US$153.5 million with the US$80 million invested from NADBank.

2. The WCIF was implemented as expected, for the most part. However, it is difficult to calculate the amount of water that was actually conserved through these investments.

3. Furthermore, it is difficult to ascertain how the conserved water was used. Some of the conserved water was apparently used to expand the amount of land under irrigation, instead of increasing the efficiency of the system or improving ecological flows. A new program would benefit from a clear understanding and commitment from project beneficiaries to cede the conserved water for identifiable, measurable and agreed upon uses.

4. It is not easy to direct water savings toward other important uses in the region, such as municipal potable water or ecological flows. These impediments include existing water rights and the cost of the infrastructure for the efficient transfer of water. Swapping water rights could offer a mechanism to transfer water among users.

5. Most of the solutions funded by WCIF relied on hard infrastructure. A new program should also support the deployment of new technologies for metering and water management, such as automated gates and telemetry, remote sensing techniques and forecasting models on a regional basis to improve irrigation practices. These developments could offer new scalable solutions.

Low-Interest Rate Lending Facility (LIRF)

Initiated in 2000, this program supported projects in water and municipal solid waste. The facility was funded by up to US$100 million in NADBank capital. Only public borrowers were eligible. NADBank determined the amount of concessions through an affordability analysis. The program was closed in 2013.

At inception the program was considered transitional until municipalities and water authorities were able to access private financing. Currently, larger U.S. and Mexican municipalities and water authorities, to varying degrees, have accessed private sources of financing, but all of them also rely on grant financing provided by federal or state authorities, as well as NADBank.

The following table summarizes LIRF loan disbursements by country and number of projects.

Table 1
(USD Million)

	No. of Projects	Total Disbursed
United States	5	$ 26.5
Mexico	13	49.6
Total	18	$ 76.1