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Second Party Opinion

# North American Development Bank's Sustainable Financing Framework

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**Location:** Mexico and U.S.

**Sector:** Financial Services

## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines ICMA, 2021

See [Alignment Assessment](#) for more detail.

## Strengths

**North American Development Bank (the Bank) applies an environmental focus across its entire portfolio, aligning its efforts closely with the National Determined Contributions (NDCs) of the U.S. and Mexico.** In keeping with its mandate, the Bank employs a rigorous project selection process through its ESRMS and ESG Scoring practices covering gender screening, environmental document review, sponsor performance evaluation, site visits, public consultations, and more.

**To ensure stakeholder transparency, the Bank utilizes its Result Measurement System (RMS) for project evaluation.** This includes a one-year closeout process for detailed impact assessments. It commits to engaging an independent external auditor to align Allocation Reports with the Framework.

## Weaknesses

**The framework's border crossing infrastructure and road paving projects lack a minimum air pollutant level for project eligibility and expected pollutant reductions are a proxy for improved health outcomes.**

They also may be associated with some embedded emissions and rebound risks. However, we note the regional context and quantitative improvements largely justify the initiatives as they achieve reduced pollution exposure for nearby communities.

## Areas to watch

**Investments in EURO VI-aligned public transportation modes south of the border are assessed as green projects in a limited scope.**

We believe these assets can be assessed as green only in the short term and in the Mexican context while the EURO VI standard remains above the local regulation.

**The framework's landfill development projects may only meet local waste management regulations.**

It also raises questions about the effectiveness of diverting recyclables from the waste stream. However, we recognize these efforts could significantly improve waste pollution and methane emissions throughout the region.

**The issuer lacks an estimated breakdown of proceeds for refinancing versus newly financed projects.** It also does not adhere to a specific lookback period for all eligible financings, potentially financing repayments dating back as far as two decades – so long as it follows the current framework's environmental criteria.

## Eligible Green Projects Assessment Summary

Eligible projects under issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

### **Sustainable energy** **Dark to Medium green**

Solar energy including solar photovoltaic (PV) production, distributed generation, concentrated solar power

Production of electricity from wind power

Other clean energy including production of electricity from ocean energy, hydropower, and geothermal

Cogeneration: cogeneration of heat/cool and power from concentrated solar power, geothermal energy, or bioenergy (biomass, biogas, biofuels)

Waste to energy for production of electricity from bioenergy (biomass, biogas, and biofuels), and manufacture of biogas or biofuels

Energy efficiency in the transmission and distribution of electricity, building renovation

Energy storage of electricity or thermal energy, storage of hydrogen

### **Sustainable water and wastewater management** **Medium to Light green**

Water resource development and/or conservation

Water treatment and conditioning, including water treatment facilities and disinfection systems, desalinization systems in areas of scarce freshwater availability

Water storage and distribution, including water pumping stations, water storage tanks, water distribution systems, new access to potable water, water meters

Wastewater collection and treatment

Other infrastructure that mitigates or prevents pollution, in watersheds, waterways or other water-related structures

### **Air quality (pollution prevention and control)** **Light green**


Control and reduction of air criteria pollutants, such as PM2.5, PM10, sulfur dioxide (SO2), and nitrogen oxide (NOx), or GHG emissions, or black carbon emissions, in the form of acquisition of new equipment or retrofitting of assets that directly mitigates emissions

Low-emission cargo and passenger vehicles and facilities in the form of infrastructure for low carbon transport (land transport)

Public transportation systems and personnel fleets, including replacement of high emissions vehicles with lower emission transport, and ancillary infrastructure

Low emission private vehicles and ancillary infrastructure for low-carbon transportation

**Urban development**

 **Medium to Light green**

Mixed use and transport-oriented development in the form of infrastructure that fosters non-motorized transportation, or more efficient use of public transport systems, or reducing travel distances

Re-densification of infrastructure that promotes mixed land uses, infill housing, smart growing or adaptive reuse, to increase efficiency in provision of basic services, and more effective mobility, including the reduction of energy consumption for water and wastewater services and transportation

Green infrastructure to assist in water infiltration, urban reforestation and public space

Sustainable buildings in the form of the development and renovation of buildings, including residential, commercial, and industrial

Sustainable industrial parks including warehouses, and industrial buildings. Implementation of circular economy concepts and components to promote recycling and materials reduction

**Solid waste (pollution prevention and control)**


 **Light green**

Solid waste collection of nonhazardous waste, including transfer stations for appropriate transportation to adequate treatment or disposal facilities

Solid waste disposal or treatment including nonhazardous waste treatment and/or final disposal

Solid waste recycling and valorization, including sorting and separation facilities, recycling systems for nonhazardous wastes, non-hazardous waste composting, e-waste recovery and recycling facilities

**Sustainable production**


 **Medium to Light green**

Manufacturing of green products

Efficient production or green manufacturing of certain products such as manufacture of cement, manufacture of aluminum, manufacture of iron and steel, manufacture of hydrogen, manufacture of fertilizers and nitrogen compounds, manufacturing of other products that result in savings of water, energy or embedded carbon

Sustainable food value chains, including sustainable crop growing, water conservation and efficiency, reduction of synthetic fertilizers

**Climate change adaptation and resilience**

 **Medium to Light green**

Flood defense systems, including runoff control systems and surge barriers, pumping stations, dikes, and gates, drought proofing, infrastructure resilience, other climate change adaptation and warning systems

Public infrastructure that aids population centers to adapt to climate change effects of heat waves, drought and rapid flooding, such as water supply, water efficiency, water conservation, as well as stormwater infiltration or control structures

See [Analysis Of Eligible Projects](#) for more detail.

## Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

### Company Description

North American Development Bank (the Bank) is a binational financial institution between the governments of Mexico and the U.S. The bank was founded in 1994 and is based in San Antonio, Texas. It provides loan and grant financing as well as technical assistance to support the development and implementation of infrastructure projects throughout the U.S.-Mexico border region to support border communities and businesses make the transition to a greener economy and become more resilient to climate change. It offers direct loans, revolving lines of credit, and participation in municipal bond issues; provides grant financing for critical environmental infrastructure projects in low income-communities for public sponsors with limited capacity to incur debt; and administers grant funds for the implementation of municipal water and wastewater infrastructure projects. It operates within an area of influence spanning 100 km north and 300 km south of the U.S.-Mexico boundary, encompassing ten states: six located in Mexico (Baja California, Chihuahua, Coahuila, Nuevo Leon, Sonora, Tamaulipas) and four in the U.S. (Arizona, California, New Mexico, and Texas).

### Material Sustainability Factors

#### Climate transition risk

Banks are highly exposed to climate transition risk through the economic activities they finance, which affect the environment. Banks' direct environmental impact is small compared with financed emissions and stems mainly from power consumption (e.g., data centers). Policies and rules to reduce emissions could raise credit, legal, and reputational risks for banks with large exposures to high-emitting sectors, such as oil and gas, metals and mining, real estate, or transportation. These medium- to long-term risks are significant and will be proportional to the impact of climate change on the economy. Positively, financing the climate transition offers a growth avenue for banks through lending, debt structuring, and other capital markets activities.

#### Water

Banks may be exposed to water-related risks through their lending activities. Such exposure is more relevant when a bank's operations are concentrated in a water stressed region or when its book of business exhibits a higher-than-average exposure to water-intensive sectors. For instance, water and wastewater utilities face various water supply and quality challenges depending on their location and role in the water lifecycle, and agriculture is responsible for more than 70% of global freshwater withdrawals. One key risk is physical water scarcity, where water availability becomes limited due to factors like droughts, population growth, and climate change. This can cause supply chain interruptions, higher costs for companies that rely on water-intensive processes, and potential regulatory restrictions. Water pollution is another risk with significant ecological and societal impacts, and inadequate wastewater treatment can impact industrial activity through reputational damage and litigation, among other business costs.

#### Physical climate risk

Physical climate risks will affect many economic activities as climate change will increase the frequency and severity of extreme weather events. Key risks in the U.S. and Mexico border region relate to extreme weather events such as floods, heatwaves, and hurricanes. Banks are exposed because they finance a wide array of business sectors that are exposed to physical climate risks. However, while climate change is a global issue, weather-related events are typically localized, so the magnitude of banks'

exposure is linked to the geographical location of the activities and assets they finance. Similarly, banks' physical footprint may also be exposed to physical risks, which may disrupt their ability to service clients in the event of a natural catastrophe, amplifying the impact on communities. Banks may contribute to mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by investing in solutions that support business continuity in exposed geographies.

### **Biodiversity and resource use**

Banks contribute to significant resource use and biodiversity impact through the activities they fund or invest in. For example, the construction sector—which is a major recipient of bank financing—is a large consumer of raw materials such as steel and cement. Similarly, bank-financed agricultural activities can have material biodiversity impacts. Environmental risks around greenfield and linear infrastructure development such as railway tracks, requiring the clearing of land, remain an important consideration for banks as they present potential disruption to natural ecosystems. Such projects should be carefully assessed to determine if biodiversity risks have been properly managed and negative impacts mitigated.

### **Access and affordability**

Banks' large impact on society and the economy stems from their role in enabling access to financial services to individuals and businesses, and in ensuring the correct functioning of payments systems, which are cornerstones of economic development and stability. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. Market imperfections such as low competition, incomplete information, and lack of financial literacy, often result in costly alternatives for small businesses and low-income people, so ensuring affordable access to financial services, especially to the most vulnerable population, remains a challenge for the banking industry. New technologies will, however, increasingly enable banks to close this gap through cost efficiencies and product innovation. While structural issues such as poverty, informality and lack of financial literacy partly limit access to financial services, banks have large opportunities to support economic development through financial inclusion.

## **Issuer And Context Analysis**

**All project categories address material sustainability factors for the Bank. Environmental projects primarily address climate transition risk and water, while social projects address issues of access and affordability as well as public health.** The project categories include sustainable water and wastewater management, solid waste, air quality, urban development, sustainable energy, sustainable production, and climate change adaptation and resilience. Physical climate risk and biodiversity and resource use are also relevant issues for the Bank since many eligible projects encompass the construction of largescale infrastructure and real estate, with tangible environmental impacts. In addition, border crossing infrastructure and road paving aim to improve health and safety for local communities.

**The Bank is a binational financial institution (FI) governed by the environmental agencies of the U.S. and Mexico with an environmental focus applied across its entire portfolio.** It operates with a strategic focus on the climate transition and sustainable development, aligning its efforts closely with the National Determined Contributions (NDCs) of both countries. The Bank's climate transition risk strategy includes measurement of its direct operational emissions, adhering to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD); since 2021, it has reported its Scope 1 and 2, and some Scope 3 category GHG emissions. More importantly, it also reports on the downstream emissions avoided related to its portfolio of financed projects.

To further its environmental mandate, the Bank is issuing its current Sustainable Financing Framework, which captures a broad spectrum of sustainable activities in line with much of its portfolio. The projects facilitate the transition by investing in renewable energy infrastructure, energy efficiency initiatives, and sustainable production practices, among others. We view its projects' focus on cleaner and environmentally friendly technologies and practices, particularly those associated with carbon-intensive industries, as a positive indication of its climate

commitment while aiming to foster economic growth in the border area. Some of these projects in the framework include refinancing eligible projects the Bank previously funded through three past green bonds it issued since 2018 totaling US\$478 million.

**Water scarcity in the U.S.-Mexico border region where the Bank operates is acute, affecting economic growth and human consumption.** According to Mexico's National Water Commission (CONAGUA), eight of the country's 32 states were experiencing extreme to moderate drought in 2023, particularly along the border. The Bank's sustainable water projects within this financing framework focus on enhancing water access, improving water quality, and mitigating the impacts of water scarcity on local communities and ecosystems. It collaborates with authorities to manage water resources and serves as a bridge between the U.S. and Mexico in the continued resolution of water issues. The Bank conducts sectorial studies to influence the agricultural sector's water use, which accounts for 80% of the region's total consumption ("Managing Water on the U.S.-Mexico Border", Baker Institute, November 2021). It also administers technical assistance grants from the EPA and so far has financed 306 water and wastewater development projects worth US\$11.5 billion.

**The border region served by the Bank is increasingly vulnerable to the impacts of climate change, including extreme weather events such as increasing heat, drought, wildfires, as well as flooding and storms.** In response, the Bank invests in infrastructure projects that enhance resilience to those risks and assesses potential financial losses resulting from these issues. By funding the construction of infrastructure such as flood defenses, heat wave adaptation, and drought proofing, it aims to reduce the vulnerability of communities and safeguard assets around basic services against the adverse effects of climate change. These initiatives align with the adaptation goals outlined in the NDCs of the U.S. and Mexico.

**The Bank integrates biodiversity considerations into its systematic due diligence process to address resource management for its large-scale infrastructure projects.** While biodiversity preservation may not be the primary focus of its eligible projects, addressing ecosystem service concerns is integral to its risk management process and is embedded into its eligible projects' certification. This includes an assessment of potential impacts on biodiversity; implementing mitigation hierarchies to avoid, minimize, or compensate for these impacts; and ensuring compliance with relevant local and international environmental standards. All the Bank's eligible projects undergo environmental impact assessments, including site visits where feasible, to ensure they meet the bank's sustainability criteria related to water scarcity, land degradation, and the sustainable management of natural resources.

**In addition to its focus on infrastructure projects with an environmental benefit, the Bank prioritizes enhancing access and affordability for communities without existing basic water and waste services and reducing health hazards associated with high levels of air pollutants.** Under its purview as a development bank, the issuer facilitates access to services that commercial banks often find more difficult to finance under fair market conditions. This access is particularly important south of the border, where the World Bank finds that Mexico has underperformed in terms of growth, financial inclusion, and poverty reduction compared to similar countries ("The World Bank in Mexico", World Bank, March 2024). The bank directs resources toward projects that will improve access to clean water and sanitation facilities in underserved areas, and an affordability analysis is conducted as part of its due diligence process. It also manages grant programs with governmental agencies to develop needed basic infrastructure at affordable costs for certain eligible communities, as well as capacity building programs to ensure proper planning, operations, and maintenance. Further, it prioritizes reducing particulate matter emissions through its jurisdiction as part of the Bank's reduced air pollution hazard initiatives for road travelers and nearby communities, such as its projects to reduce idling tailpipe emissions at border ports of entry. Consistent with Mexico's updated NDC, these initiatives also have an environmental co-benefit of reducing air pollutant emissions with an outsized short-term global warming potential (GWP).

# Alignment Assessment

This section provides an analysis of the framework's alignment to the Social and Green Bond principles and the Sustainability Bond Guidelines.

## Alignment With Principles

Aligned = ✓    Conceptually aligned = ○    Not aligned = ✕

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
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### ✓ Use of proceeds

The Bank will allocate an amount equal to the net proceeds from financial instruments issued under the framework to finance or refinance green and social projects, which include sustainable water and wastewater management, solid waste, air quality and pollution prevention and control, sustainable energy, sustainable production, urban development, and climate change adaptation and resilience, in addition to social infrastructure and air quality improvement projects with an environmental benefit. We view the Framework as aligned with the relevant Principles and achieved a shade of green under our Shades of Green analytical approach. Please refer to the Analysis of Eligible Projects section for more information on our assessment of the environmental and social benefits of the expected use of proceeds.

### ✓ Process for project evaluation and selection

The framework contains a description of the Bank's process for project evaluation and selection. The Bank identifies relevant environmental and social objectives for all eligible projects through its Environmental and Social Risk Management System (ESRMS) and ESG Scoring systems, which also identify, evaluate, and monitor potential environmental and social risks associated with the eligible projects. Specifically, the ESRMS categorizes projects according to their E&S Risk, and includes analysis of various issues, including regulatory compliance, E&S assessment, gender screening, review of environmental documents, review of sponsor's performance, site visit, and public consultation. We view these processes as stringent. Furthermore, the bank has outlined an exclusionary list, which ensures that no activities related to fossil fuels, gambling, tobacco, deforestation or improperly managed forests, activities that violate the rights of indigenous people, among others, can be financed under the framework.

### ✓ Management of proceeds

Prior to allocation to eligible projects, the bank will track proceeds under its accounting system on a monthly basis with reports submitted to management quarterly. Over the two years following issuance of the financing, it expects to allocate 100% of proceeds to the eligible project categories. The unallocated proceeds will be held in bank's portfolio or cash and managed according to its investment policy, which has conservative guidelines. These dictate investment in U.S. Treasuries or issuances of U.S. agencies, Mexican Government securities or investment grade corporate notes and bonds, rated 'A' or better.

### ✓ Reporting

The issuer commits to disclosing the allocation and impact of proceeds through an annual report, or a standalone document on its website. The allocation report will include the list of eligible project categories financed and refinanced, the percentage of resources allocated to eligible project category and the balance of unallocated proceeds at the time of reporting. We view

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positively that the bank commits to engaging an independent external assurance provider to ensure the reports are aligned with the framework. In addition, the issuer will report the actual environmental impact of projects so long as the instrument is outstanding, which we find a robust practice. Another strength is that the bank commits to prepare and publish its annual report in alignment with the ICMA Harmonized Framework for impact reporting, and it will apply its Result Measurement System (RMS) to measure and offer an assessment of actual project outcomes and performance – after the project has been in operation for a year and again once the project is fully completed.




## Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "[Analytical Approach: Shades Of Green Assessments](#)," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

There is not an estimated amount that will be allocated to each project category; however, we expect that the majority of proceeds will be targeted to sustainable energy projects followed by water and wastewater projects. The issuer does not have an estimated breakdown of proceeds to be allocated to refinancing projects versus newly financed projects, nor does it follow an estimated lookback period for all projects.

### Green project categories

#### Sustainable energy

Assessment	Description
 <b>Dark to Medium green</b>	<ul style="list-style-type: none"> <li>• Solar energy including solar PV production, distributed generation, concentrated solar power</li> <li>• Production of electricity from wind power</li> <li>• Other clean energy including production of electricity from ocean energy, hydropower, and geothermal</li> <li>• Cogeneration of heat/cool and power from concentrated solar power, geothermal energy, or bioenergy (biomass, biogas, biofuels)</li> <li>• Waste to energy for production of electricity from bioenergy (biomass, biogas, and biofuels) and manufacture of biogas or biofuels</li> <li>• Energy efficiency in the transmission and distribution of electricity, building renovation</li> <li>• Energy storage of electricity or thermal energy and storage of hydrogen</li> </ul>

#### Analytical considerations

- The Bank’s eligible “sustainable energy” projects include a wide range of low- to zero- emission energy solutions, energy efficiency measures for the transmission and distribution of that electricity, and related building renovations that achieve a savings in net primary energy demand (PED) of at least 20% compared with the baseline performance. We view this project category as widely supportive of both the U.S. and Mexico’s longer- and short-term NDCs to achieve net zero by 2050 and to reduce GHG emissions by 35% by 2030, respectively.
- In our view, such projects are an important driver in reducing Mexico’s dependency on fossil fuels and diversifying both Mexico and the U.S.’ energy supply. While end-users of such projects are not identified, the Bank has indicated that relevant historical and future anticipated projects include production of energy to be distributed through Mexico’s grid, thus making the overall state’s energy matrix cleaner. This expectation and the Bank’s stringent due diligence process support our view of these efforts as helping limit global average temperature increase to well below 2 degrees Celsius.
- The Bank’s renewables financing of solar energy generation, concentration, and distribution, as well as wind power energy production reflect some of the fastest growing electricity sources throughout the U.S. and Mexico. We understand financed projects could be on land or off-shore solar and wind plants of varied sizes as well as solar on rooftops. Such projects, particularly land-based wind, can have negative impacts on biodiversity, which must be carefully managed. However, we believe the Bank’s ESRMS and ESG Risk score policies sufficiently manage these risks and we therefore assess these projects as Dark Green. Similarly, projects producing electricity from EU-taxonomy aligned hydropower, geothermal, and ocean energy and

energy storage of electricity or EU Taxonomy-aligned thermal energy and storage of EU Taxonomy-aligned hydrogen are considered Dark Green projects consistent with a Paris-aligned future based on their low lifecycle emissions.

- The issuer’s bioenergy projects encompass biogas, biofuels, waste to energy initiatives, and cogeneration for heating/cooling. While not all origination sources of the Bank’s bioenergy projects are known at this time, the issuer informs us that eligible sources will consist mainly of byproducts or waste material generated by financed wastewater treatment plants or solid waste facilities owned by municipalities or private industry clients, therefore helping facilitate a circular economy. Biofuel production as a standalone operation requiring nonlocal sources is not anticipated. Despite not being aligned to EU Renewable Energy Directive (EU RED) criteria, which we view as a stronger practice, all projects will adhere to the IFC considerations on bioenergy best practices for the assessment of environmental performance indicators ("Performance Standards on Environmental and Social Sustainability", International Finance Corp., January 2012). Finally, the issuer’s commitment to not finance projects linked to deforestation and to follow the do-no-significant harm (DNSH) considerations for production of bioenergy from the Mexican Taxonomy allay concerns around connections to contentious land use change. For these reasons, we find these projects Medium Green.
- We assign a Dark Green shade to separate cogeneration projects of heat/cool and power from solar and/or EU-taxonomy aligned hydropower (<25-30MW), geothermal (100g CO2e/kWh). The EU-taxonomy low-emissions criteria for cogeneration is a declining threshold, reducing every five years in line with a net-zero CO2e in 2050 trajectory. According to the Bank, such projects must be inside the area of influence of the bank (100 km north and 300 km south of the USA – Mexico Border). Since there are not any major rivers or abundant water in this region, the only real potential would be in small hydropower generation.
- Other energy efficiency measures for the transmission and distribution of electricity are also eligible and considered Light Green due to some resulting risks of fossil fuel lock in. We expect they will encompass grid investments without dedicated connections to fossil fuel intensive assets, supporting the border region grid that is in large part not yet on a trajectory to decarbonization. Related building renovations that achieve a savings in net PED of at least 20% in comparison to the baseline performance of the building before the renovation are incremental solutions to a low carbon climate resilient future and shaded Medium Green.
- In our view, the above-mentioned projects have the potential for material improvement in both countries’ emissions reduction goals, and while wide-ranging in scope and size, we are assured by the Bank’s stringent due diligence processes.

**Sustainable water and wastewater management**

**Assessment**

 **Medium to Light green**

**Description**

Projects related to studies, design, construction of new infrastructure, equipment, operation, maintenance, and rehabilitation of existing infrastructure, expansion, and adaptation for the efficient and sustainable management of water, wastewater, and stormwater including:

- Development of water supply for communities (surface and/or groundwater), development or production of water catchment areas, infiltration and groundwater recharge systems, rainwater harvesting systems, water pumping and conduction infrastructure, and water supply pollution prevention
- Water treatment and disinfection facilities, desalinization systems in areas of scarce freshwater availability
- Water pumping stations, water storage tanks, water distribution systems, new access to potable water, water meters
- Wastewater collection systems, new access to wastewater collection and treatment, wastewater pump stations and main forces, wastewater and sludge treatment facilities, natural treatment and polishing systems, treated wastewater recycling systems
- Other infrastructure that mitigates or prevents pollution in watersheds, waterways, or other water-related structures

**Analytical considerations**

- The Bank’s water projects cover the entire water and wastewater supply management lifecycle, including water conservation, treatment (including desalinization), and distribution – all of which will comply with local regulations. Such efforts are important from both an environmental and climate perspective, particularly in the local context. There are growing concerns regarding the longevity of water supply resilience and viability in the border region due to changing surface water patterns, overallocation, and groundwater overdraft from surrounding aquifers and increasing drought. Further, water allocations in the area include heavy subsidies for agriculture regardless of efficiency or local adequacy and where water pollution levels are relatively high. It is also not uncommon for water utilities in Mexico to have water loss rates of over 40% ("The Water Crisis in Mexico: Challenges and Solutions", Smart Water Magazine, January 2024); reducing such losses would improve overall water system energy savings.
- Most of the Bank’s projects aim to make water utilities of the region more efficient (either by promoting re-use, minimizing water loss, or increasing supply), with their eligibility based on an identification of inadequately managed water supply and efficiency solutions. The bank prioritizes recycling and reuse projects, both for non-potable water (wastewater reuse) and potable use for major cities throughout its jurisdiction, helping limit water stress in the region. Its pipe replacement process also includes periodic water audits with partner utilities to analyze and measure water loss over time, including leak identification. To measure its water supply and distribution impact, the Bank will use metrics such as irrigation water savings (acre-ft/year) as well as water losses eliminated, water savings, and urban and stormwater reuse (mgd).
- In some limited cases, the Bank may finance seawater desalinization plants near coastlines where there is limited surface- or ground- water availability resulting in a less energy-intensive process than pumping water from nearby sources, according to the Bank’s internal studies. Nevertheless, such plants are highly energy intensive and the desalination process produces brine, which can be highly toxic for surrounding ecosystems. To mitigate this risk and others, the Bank complies with the IFC’s sustainability performance standards, ensuring safeguards against such risks in its guidance on pollution prevention and community health safety.
- The Bank is also financing wastewater treatment and reuse for industry and irrigation uses and direct and indirect potable reuse for projects that meet or exceed local regulatory requirements. The framework outlines financing for potable water treatment and conditioning initiatives that aim to reduce water pollution and improve access to safe drinking water across relevant municipalities. Multiple safeguards will be used to manage environmental risks in its wastewater management and treatment category. Methane emissions from collected waste are controlled by a waste management plan and are collected for beneficial reuse where feasible. Typical wastewater treatment projects also use biological processes whereby organic substances rather than chemicals degrade pollutants in the water. We view positively the Bank’s extensive experience implementing and managing wastewater projects and its intention to report environmental metrics such as wastewater collected, treated, and discharges eliminated (mgd).
- The Bank’s substantive due-diligence process, which includes its ESRMS and E&S risk scoring, ensures that all projects meet or surpass local regulatory requirements and helps it review local hydrological and water availability issues before submitting them to the Bank’s Board for certification. For example, the Bank’s ESRMS uses Mexico’s National Water Information System to monitor surface and groundwater levels. It also allows the Bank to take case-by-case measures to reject highly emissions-intensive industries such as large-scale mining operations, when it deems appropriate. However, there is no standard exclusionary criteria for certain off-takers or sectors. There is also minimal visibility on the lifecycle emissions for the proposed projects, as embodied emissions are not yet captured in the Bank’s proposed environmental metrics. We also note projects may lack energy capture and other resource recovery, depending on local standards, with some investments liable to rely on fossil fuel equipment and power, particularly for backups. Balancing the projects’ strengths and limitations, our assessment of the Bank’s sustainable water and wastewater projects is Medium to Light Green.

**Air quality (Pollution prevention and control)**

**Assessment**

 **Light green**

**Description**

Projects that include studies, design, construction of new infrastructure, operation, maintenance and rehabilitation of existing infrastructure, expansion, and adaptation for enhancement of ambient air quality, including:

- Control and reduction of air criteria pollutants, such as PM2.5, PM10, SO2, NOx, or GHG emissions, or black carbon emissions, in the form of acquisition of new equipment or retrofitting of assets that directly mitigates emissions

- Low-emission cargo vehicles and infrastructure for low carbon transport (land transport)
- Public transportation systems and personnel fleets, including replacement of high emission vehicles with lower emission transport, and ancillary infrastructure
- Low emission private vehicles and ancillary infrastructure for low-carbon transportation

**Analytical considerations**

- The Bank’s proposed projects to control and reduce greenhouse gas or black carbon (including air criteria pollutants) emissions include the development, acquisition, or retrofitting of industry infrastructure and vehicle assets and equipment that directly mitigate emissions. Such projects’ eligibility criteria follow quantified emissions reduction metrics and perform beyond the business-as-usual standard, and in many cases, surpass regulatory requirements.
- Projects in this category may include any technology for flue gas treatment installed on industrial chimneys -- excluding the production or use of coal -- for the purposes of reducing at least 51% of black carbon (a component of PM2.5 emissions, expelled through the stacks). Such projects present a level of lock-in risk given their attachment to existing fossil-fuel assets; however, the treatments are unlikely to extend the useful life of the infrastructure and we are assured by the Bank’s commitment for these installations to result in the industrial chimneys performing beyond local regulation in all cases. We also believe there is outsized environmental benefit from the projects when financed south of the border as black carbon’s warming potential is 900-1,500 times that of CO2, and in Mexico, PM 2.5 concentrations are nearly two times above the World Health Organization’s recommended limit. One of the country’s NDCs is therefore to reduce emissions of black carbon by 51% by 2030 across various sectors, including industry and oil and gas. Particularly given the Bank’s status as a binational FI governed by Mexico and the U.S.’ respective environmental agencies, we view its focus on PM 2.5 reduction as highly relevant to its mandate. That said, black carbon is a short-lived GHG and while its reduction is important, in our view, such efforts must not inhibit a transition away from fossil fuels. We therefore assess these projects as Light Green.
- Projects to limit black carbon and other GHG emissions could also include modes of public or mass transit that meet EURO VI or equivalent standards or are retrofitted with technology that reduces at least 70% of NOx emissions compared with the BAU scenario. In our view, projects relying on diesel fuel-based technologies even if in addition to EURO VI pollutant criteria introduce some lock-in risk given the average 12-year lifespan of such buses and cargo vehicles. However, we also note such investments could stimulate an uptake of ultra-low-sulphur diesel, still largely inaccessible south of the border, which has led to maintained Euro V regulation in Mexico. Euro V criteria, wherein PM and NOx emissions are 80% and 50% higher for heavy duty vehicles, on average ("A Technical Summary of Euro 6/VI Vehicle Emission Standards", The International Council on Clean Transportation, June 2016), is not expected to change until 2025 at the earliest. Transportation investments may also include hybrid and electric public and private vehicles (fleets with zero tailpipe emissions or direct emissions below 50 gCO2/p-km, until 2025, as outlined in the EU Taxonomy) and ancillary infrastructure required for using these transportation systems. For these reasons – including the Bank’s commitments to continue moving toward zero-emission buses and heavy-duty vehicles in the near term – we assess these projects as Light Green.

**Urban development**

**Assessment**

 **Medium to Light green**

**Description**

- Mixed use and transport-oriented development in the form of infrastructure that fosters nonmotorized transportation, or more efficient use of public transport systems, or reducing travel distances
- Re-densification of infrastructure that promotes mixed land uses, infill housing, smart growing or adaptive reuse, to increase efficiency in provision of basic services, and more effective mobility, including the reduction of energy consumption for water and wastewater services and transportation

- Green infrastructure to assist in water infiltration, urban reforestation and public space
- Sustainable buildings in the form of the development and renovation of buildings, including residential, commercial, and industrial
- Sustainable industrial parks including warehouses, and industrial buildings. Implementation of circular economy concepts and components to promote recycling and materials reduction

### Analytical considerations

- The mixed use and transport-oriented development projects include infrastructure that fosters nonmotorized transportation or more efficient use of public transport systems and prioritizes active mobility measures, for instance travel on foot, bicycle, e-bikes, and e-scooters. They may also include investments in bus and other public transport routes that reduce passengers' travel distances. Although, the overall goal of more efficiently using public transport systems is positive and promotes a low carbon, climate resilient future, the lack of thresholds on what constitutes more efficient use of public transport systems presents weaker criteria. We assess these projects as Medium to Light Green.
- The re-densification of infrastructure projects may include any investments promoting mixed land uses, infill housing, and urban adaptive reuse, in an effort to increase the efficiency of basic services such as water and wastewater pumping and mobility resources. According to the Bank, such projects may include middle income housing and surrounding green spaces, walking and biking lanes, and water and wastewater service provisions where there are deficiencies in access, outsized urban sprawl, and poor quality of transportation. In all cases, an estimated energy efficiency improvement of at least 20% against the pre-financing baseline will be met, and we are assured that all building construction will follow the same energy efficiency criteria noted in other parts of the framework. Therefore, despite the broadness of the projects, we view such densification improvements as largely positive ways to improve mixed land areas within currently unused, underutilized, or improperly managed urban centers. The bank's green infrastructure projects also include water infiltration and urban reforestation initiatives, which we acknowledge as having positive environmental benefits and Dark Green activities.
- The Bank will also direct funds to the more sustainable construction and renovation of buildings for the region, which include residential, commercial, and industrial properties throughout its jurisdiction. For new building developments, the issuer will fund construction that meets one of the following: 1) an energy savings improvement between 20% and 40% from their respective baselines including building heating/cooling (pre-financing); 2) meet a primary energy demand (PED) between 200 kWh/m<sup>2</sup>a and 470 kWh/m<sup>2</sup>a (for residential and commercial), a PED of 100 kWh/m<sup>2</sup>a to 190 kWh/m<sup>2</sup>a (for industrial parks and plants or warehouses with manufacturing processes), and 30 to 40 kWh/m<sup>2</sup>a PED (when without industrial processes); or 3) are Leadership in Energy and Environmental Design (LEED) or Excellence in Design for Greater Efficiencies (EDGE) certified. In all cases, projects will provide at least a 20% improvement in terms of energy *and* water savings against local regulation according to the sector, type of project, and location. For the industry sector and U.S. side of the border, LEED certifications, including LEED Gold, will be common.
- The quantitative criteria around new building construction is aligned with the Mexican Taxonomy, which goes beyond local building code for Mexican states along the border. We note, however, that building developments may include those using up to 470 kWh/m<sup>2</sup>a, which are considered highly energy consuming in some jurisdictions. Projects on the U.S. side of the border will also always go beyond energy efficiency state-level regulation by at least 20%, supporting the projects' consistency with our understanding of material energy savings north of the border. Therefore, while the scope of the projects is wide ranging, the projects' improved energy performance against local standards provides some assurance that the building projects can be deemed energy efficient as compared to the regional building stock. The Bank also notes that most sustainable industrial parks eligibility criteria will also consider embodied carbon in construction, but this will not be applied across all cases. Anticipated fossil fuel-based heating and cooling is a weaker consideration of the projects as it presents lock-in risk. These considerations limit the shade to Light Green. Less emissions-intensive building renovations, however, are a Medium Green component of the projects due to their commitment to achieve a net PED of at least 20% compared with the baseline performance of the building.
- For all projects, the Bank has an ESG scoring methodology that includes physical climate risk assessment as one of the factors used to evaluate all projects. These considerations help guard against climate resiliency issues in the region related to weather events and climate disasters such as flooding, sea level rise, wildfires, droughts, and storms.

**Solid waste (Pollution prevention and control)**

**Assessment**

 **Light green**

**Description**

Projects that include studies, design, construction of new infrastructure, operation, maintenance and rehabilitation of existing infrastructure, expansion, and adaptation for the efficient management of solid wastes, including:

- Solid waste collection of nonhazardous waste, including transfer stations for appropriate transportation to adequate treatment or disposal facilities
- Solid waste disposal or treatment including nonhazardous waste treatment and/or final disposal
- Solid waste recycling and valorization, including sorting and separation facilities, recycling systems for nonhazardous wastes, non-hazardous waste composting, e-waste recovery and recycling facilities

**Analytical considerations**

- The Bank aims to reduce the amount of waste collected and processed within its local waste streams where there is a heightened need for proper management to regulatory standards. However, there is little visibility regarding the practical outcome of these projects including the end-fate of sorted recycled waste, particularly as they are a newer focus for the Bank. The addition of new waste facilities and infrastructure investments are also inherently emissions-intensive processes; however, the Bank’s biogas-to-energy projects do come with a quantitative emissions threshold: facilities will operate above 80% of GHG emissions-reduction in relation to the relative fossil fuel comparator. Further, the Bank will report on solid waste impacts in terms of the acreage of unregulated dump sites closed, total amount of solid waste removed from improper/unregulated disposal sites (tons), and solid wastes recovered for beneficial reuse including recycling, composting, and waste-to-energy (tons/day). We believe these metrics speak to the category’s improvement of the surrounding ecology and air quality posed by improper waste management, supporting our assessment of the category as Light Green.
- The Bank’s solid waste projects target improvements in waste management practices, crucial in regions such as the U.S.-Mexico border where open dumps without proper control measures and lacking pollution prevention systems to the local regulation are common, which may lead to environmental risks such as surface/air/groundwater pollution and fires. The Bank’s prospective solid waste projects focus on improvements throughout the lifecycle of waste management, including the collection, treatment, disposal, and recycling of non-hazardous waste. Positively, investments will include waste sorting infrastructure which aims to enhance the efficiency of waste segregation processes, thereby facilitating the recycling and proper disposal of different types of materials. By investing in waste sorting infrastructure, the Bank aims to reduce the volume of waste sent to landfills, minimize environmental pollution, and promote sustainable waste management practices throughout the border region.
- Some eligible investments may be in new or existing waste management facilities where the biogas from nonhazardous waste will be captured and used for electricity for nearby residences and businesses. Such reuse is beneficial for reducing methane emissions from landfills – and therefore plays an important role in mitigating climate change. According to our discussions with the issuer, projects that release methane directly into the atmosphere would not be supported and all new facilities financed within this framework will possess a stringent waste and methane management plan in accordance with local regulation. Regardless, waste incineration can be a polluting process, underscoring need for vigilant monitoring and scrutiny of the project’s environmental implications within the market.

**Sustainable production**

**Assessment**

 **Medium to Light green**

**Description**


- Manufacturing of green products

- Efficient production or green manufacturing of certain products such as manufacture of cement, aluminum, iron and steel, hydrogen, fertilizers and nitrogen compounds, and other products that result in savings of water, energy, or embedded carbon
- Sustainable food value chains, including sustainable crop growing, water conservation and efficiency, reduction of synthetic fertilizers

**Analytical considerations**

- Eligible projects in this category may include the production and manufacturing of renewable energy-related (green) products as well as other specific types of products following specific lifecycle emissions criteria consistent with the EU and/or Mexican Taxonomies, ranging from cement production to sustainable food value chains projects. We view these cross-sector, Taxonomy-consistent inputs material to the Bank’s (and its related countries’) environmental targets as they adhere to stringent emissions, pollution, and conservation standards, particularly for the border region.
- The Bank’s green product manufacturing initiatives encompass the key components and machinery essential for renewable energy technologies or the manufacture of low carbon transport vehicles. The issuer indicated to us that these manufacturing systems will support renewable energy technology production listed in the sustainable energy category of the framework and apply to components for EVs and similar products’ mechanical and electric components (excluding the production of batteries). The manufacturing of these components has become more prevalent in the region due to nearshoring opportunities.
- Projects with production processes consistent with the relevant EU Taxonomy criteria include the manufacture of cement, aluminum, iron and steel, hydrogen, and fertilizers and nitrogen compounds. Due to the projects’ estimated lifecycle emissions criteria (which are stringent against the BAU case for the related wide-ranging sectors and industries in the border region), we believe these efforts support a low-carbon, climate-resilient future in the medium term. However, we know little about the end users of these inputs and many of the manufactured inputs are considered transitional activities in the EU Taxonomy. We therefore view these projects as Light Green.
- Separately, crop-related farming projects supporting sustainable food systems follow the Mexican Taxonomy criteria, whereby at least two agroforestry, regenerative, low-emission, or otherwise environmentally beneficial activities must be followed, including: crop rotation, integration of cover crops and tree species, conservation of native vegetation, substitution of synthetic fertilizers by organic fertilizers or bio-inputs, soil conservation, and reduced tillage application, to name a few. We view such measures as effective practices for low-impact crop farming, particularly given that deforestation and the use of chemical pesticides are excluded. The issuer also aims to prioritize efficient use of water and fertilizers, opting for organic fertilizers (lower emissions) where possible. Due to a wide range of crop types and the possibility of crop farming for ruminant livestock feed, however, project shading is limited to Light Green.
- As with the other project categories, activities must be compliant with local and national regulations and follow a stringent ESRMS and ESG Risk Score due diligence process. The Bank has conveyed to us that a thorough analysis including the origin and production methods of its raw materials is a large emphasis of this selection process. Physical climate risk assessments focused on possible extreme weather events, flooding events, wildfires, droughts, and storms are also a component of the due diligence process and highly relevant to the category’s sustainable food projects.

**Climate change adaptation and resilience**

Assessment	Description
 <b>Medium to Light green</b>	<ul style="list-style-type: none"> <li>• Flood defense systems including runoff control systems and surge barriers, pumping stations, dikes, and gates, drought proofing, infrastructure resilience, other climate change adaptation and warning systems</li> <li>• Public infrastructure that aids population centers to adapt to climate change effects of heat waves, drought, and rapid flooding, such as water supply, water efficiency, water conservation, as well as stormwater infiltration or control structures</li> </ul>







**Analytical considerations**

## Second Party Opinion: North American Development Bank's Sustainable Financing Framework

- The Bank views climate resiliency efforts as an integral part of each of the assets and other projects it finances. It also invests in stand-alone adaptation projects such as flood defense systems and other infrastructure that will protect border area population centers and public basic service infrastructure, such as wastewater and solid waste management. Such projects also aim to aid border communities to adapt to climate change effects in three key ways: heat wave adaptation, drought proofing, and rapid flood protection.
- According to the Bank, none of these resiliency activities will prop up the fossil fuel sector value chain, although the projects' construction and energy sources may be reliant on fossil fuels to some degree. Additionally, all projects undergo the same ESRMS due diligence and ESG risk score process to identify potential sustainability risks such as maladaptation and increased emissions or outsized environmental impacts associated with the projects. Positively, the projects are predicated by feasibility and engineering studies to identify the most sustainable measures and inputs, within reason.
- For these reasons, we view these activities as supportive of a low carbon, climate resilient future. Given the broader project category with activities that have important but less exact benefits over time, the likelihood of increased emissions during construction and operation (particularly in the case of wastewater treatment infrastructure), and a lack of plans to manage embodied emissions – these projects are assessed as Medium to Light Green.



S&P Global Ratings' Shades of Green

Assessments					
Dark green	Medium green	Light green	Yellow	Orange	Red
<b>Description</b>					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
<b>Example projects</b>					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

## Social project categories

### Social projects with environmental co-benefit (access to essential services)

Access to essential services: proceeds used to finance or refinance activities related to the design, development, rehabilitation and expansion of affordable basic infrastructure and access to essential services, including access to drinking water, and sanitation or sewer systems and, solid waste collection, with a focus on populations that lack such services adequately.

#### Analytical considerations

- The framework's social activities are limited to those that provide border communities with access to adequate basic services of water, wastewater collection and treatment, and solid waste collection. The development of these types of projects are also included in the corresponding environmental project categories, but the intention of the Bank's social project category is for a separate prioritization of directing such services to target populations in the U.S.-Mexico border that are currently lacking (in terms of quality and/or quantity). These social projects are also included in the relevant "sustainable water" and "solid waste" environmental project categories and will not be separate from those projects.
- Such target communities are identified by the Bank through its due diligence process, which includes an analysis of the social (including gender specific issues) and environmental aspects. In all cases, the Bank's ESRMS criteria maintains that eligible projects clearly identify specific vulnerable areas and households that will benefit from such services, based on the specific area to be served, connections to be included and/or built, cesspools to be decommissioned from specific lots, and more.
- In its annual impact reports, the Bank will track the number of people who receive first-time or materially improved access to such potable water and/or waste collection services as a result of the projects. Concerning affordability, the Bank conducts affordability analyses as part of its due diligence process and provides grant programs to offset costs and finances capacity building programs.

### Social projects with environmental co-benefit (reduced exposure to air-quality-related health hazards for specific groups)

Projects include studies, design, construction of new infrastructure, operation, maintenance, expansion, and rehabilitation of existing infrastructure, that will result in a reduction of air pollutants and the subsequent enhancement of ambient air quality and the corresponding benefit to public health in a specific populated area. Specifically, these projects will include: (1) Pavement of existing unpaved roads for the purpose of reducing and controlling local particulate matter emissions and (2) Efficient border-crossing facilities and infrastructure, such as improvements to inspection facilities and traffic control to reduce wait times and corresponding idling tailpipe emissions. The target population includes people living in the U.S.-Mexico border communities exposed to air quality hazards. The specific area and target population benefiting from reduced emissions will be identified, which may include children, the elderly, or other groups that are particularly vulnerable to the effects of air pollution.

#### Analytical considerations

- The Bank's projects aim to reduce ambient air pollutant exposure for local communities and land-based travelers around its project sites, which is linked to reduced health hazards induced by air pollution in the region. The first is centered on the design, operation, construction, and/or rehabilitation of border crossing infrastructure at the U.S. Mexico border ports of entry, which are expected to shorten heavy duty vehicle truck wait-times and therefore idling vehicle emissions (including PMs, So<sub>2</sub>, VOC, and NO<sub>x</sub>). The second project involves the paving of unpaved roads for the purpose of reducing fugitive windblown and activity-related dust highly associated with heavy duty vehicle (HDV) passage, a material source of PM<sub>2.5</sub> and PM<sub>10</sub> emissions. Both involve financing air quality monitoring and control stations as well as air quality studies to establish and illustrate their impact.
- As the overall largest U.S. trading partner, rising roughly 2.5% year over year (y/y) ("U.S.-Mexico cross-border trade totaled almost \$800B in 2023," Freight Waves, February 2024), Mexico-U.S. border crossings collectively entail the busiest POEs in the world, primarily for trade transport: 70% of the traffic through the border is related to cargo trucks ("2022 International Trade Corridor Plan," Texas Department of Transportation, 2022), and from 1994 to 2023, traffic throughout these ports grew almost 700% ("US Total Trade with Mexico by Value," Bureau of Transportation Statistics, Border Crossing Data. 2023). Lines of vehicles waiting to be inspected at the POEs often stall for an hour or more at time, resulting in idling vehicle emissions. The Bank therefore notes that border crossing projects primarily entail the construction or rehabilitation of freight inspection

















stations and related infrastructure that will allow traffic to be diverted from more congested POEs with proximity to urban centers to other less congested ports with reduced urban exposure. The recipients of this financing are primarily local governments on the Mexican side of the border managing the border crossing facilities with financing raised by the Texas and New Mexico Commissions on Environmental Quality, the EPA's "Border 2025" program, or private sponsors. The Bank also conducts its own traffic and air pollution modeling studies as part of its due diligence process for these projects, and we view positively that a project eligibility requires an estimated gross 15-30% or more emissions reduction (either GHG or criteria pollutants, or both) against the base case (pre-financing) scenario.

- Unpaved roads are prevalent throughout the arid border region, and the issuer indicates that such projects would primarily finance road paving for local municipalities, only in cases where basic services such as water and waste infrastructure are also present in the locality and may benefit from the paved roads. Similar to the border POE projects, the Bank commits that, to be eligible, road paving projects must meet an estimated gross particulate matter reduction of at least 80% against the baseline (pre-financing) scenario. It has also indicated that such projects will commence where its due diligence process illustrates that unpaved roads are a major source of PM 10 and 2.5 emissions due to frequent travel by heavy duty vehicles, such as in the Mexican cities of Chihuahua, Acuña, Piedras Negras, Juárez, and others.
- While not as often issued under the Social Bond Principles, we recognize that these reduced exposure projects are relevant for the border region where air pollution levels are disproportionately high which can effect population morbidity and mortality, especially for more vulnerable population such as the elderly. Particularly in many areas around the border ports of entry, air pollution levels have received attention from civil society as a growing health issue for adjacent communities. On a wider scale, air pollution exposure has become a regional health issue in the U.S. Mexico border region. According to the World Bank, this issue kills 33,000 Mexicans every year, primarily due to outdoor air pollution in towns and cities, with PM 2.5 emissions being the most dangerous particulate. PM 2.5 concentrations are 2-3 times above the healthy recommended limit, on average. For these reasons, the target communities identified by the Bank are "those exposed to air quality hazards and may include children, elderly, or other groups particularly vulnerable to the effects of air pollution." The beneficiaries of the projects go beyond the travelers along these roads and POEs, and extend to the communities living in residential areas in the vicinity of the projects.
- To support its aims, the Bank's due diligence process involves using the EPA's Environmental Justice tools to analyze the air pollution levels and socioeconomic status of the surroundings of the projects at the Border ports of entry, and for all projects, the Bank will track available air quality and traffic data to identify specific POEs and localities with increased air pollutants. However, we note that it has not set a minimum level of air pollution concentration or air quality index average that must be reached before the projects commence. Nevertheless, the issuer has specified to us that impact report studies will identify associations between these interventions and the surrounding area's quantified reduced air pollutant exposure; for example through measuring PM 10 and PM 2.5 emissions avoided (tons/year). They will also include assessments of the local populations' perception of the projects through published surveys. While the use of particulate emissions as an impact indicator is a proxy for concentrated air quality levels and does not necessarily directly point to evidenced improved health outcomes, we note that this linkage between the projects and their proposed social benefit would be costly to measure and could only materialize over a long timeframe. For these reasons, many social projects in the market lack such a cause-effect scope of impact reporting and rather focus on project outputs. Ultimately, we view the Bank's indicators – when combined with quantified air pollutant emissions improvement estimations – a welcome representation of reduced pollution exposure, particularly in a region with a strong justification.

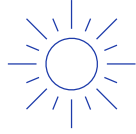
# Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

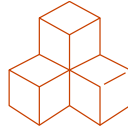
This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs				
Sustainable water and wastewater management	 <b>1. No poverty</b>	 <b>3. Good health and well-being</b>	 <b>6. Clean water and sanitation*</b>	 <b>11. Sustainable cities and communities*</b>	 <b>12. Responsible consumption and production*</b>
	 <b>13. Climate action</b>				
Solid waste	 <b>1. No poverty</b>	 <b>3. Good health and well-being</b>	 <b>11. Sustainable cities and communities</b>	 <b>12. Responsible consumption and production</b>	 <b>13. Climate action</b>
Air quality	 <b>3. Good health and well-being</b>	 <b>9. Industry, innovation and infrastructure</b>	 <b>11. Sustainable cities and communities</b>	 <b>12. Responsible consumption and production</b>	 <b>13. Climate action</b>

Sustainable energy



**7. Affordable and clean energy\***



**9. Industry, innovation and infrastructure\***



**13. Climate action**

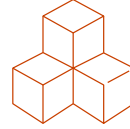
Sustainable production



**2. Zero hunger**



**6. Clean water and sanitation\***



**9. Industry, innovation and infrastructure\***

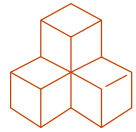


**12. Responsible consumption and production**



**13. Climate action\***

Urban development



**9. Industry, innovation and infrastructure**



**11. Sustainable cities and communities**

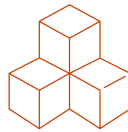


**13. Climate action**

Climate change adaptation and resilience



**6. Clean water and sanitation**



**9. Industry, innovation and infrastructure**



**11. Sustainable cities and communities**



**13. Climate action\***

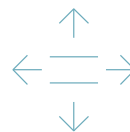
Access to essential services



**1. No poverty\***



**6. Clean water and sanitation**



**10. Reduced inequalities\***



**11. Sustainable cities and communities**

Reduced exposure to air quality hazards for specific groups



**3. Good health and well-being**



**9. Industry, innovation and infrastructure**



**11. Sustainable cities and communities**

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\*The eligible project categories link to these SDGs in the ICMA mapping.

## Related Research

- [Analytical Approach: Second Party Opinions: Use of Proceeds](#), July 27, 2023.
- [FAQ: Applying our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions](#), July 27, 2023.
- [Analytical Approach: Shades of Green Assessments](#), July 27, 2023.
- [S&P Global Ratings ESG Materiality Maps](#), July 20, 2022.

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## Second Party Opinion: North American Development Bank's Sustainable Financing Framework

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