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NADBank Looks to Expand Financial Clout

The North American Development Bank wraps up a decade of lending assistance along the U.S.-Mexico border with plans to expand its involvement in environmental projects.

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Border region to get more help with environmental projects

Observing an important anniversary this year, the North American Development Bank looks back on its first decade as a lender for environmental infrastructure along the U.S.-Mexico border.

Since 1994, the institution has pumped \$660 million into 79 public works projects; of those, 53 were in the U.S., including 30 in Texas.

NADBank was created by the United States and Mexico as a side agreement to the North American Free Trade Agreement, in recognition that international assistance would be needed to address environmental problems in impoverished border areas.

Since then, the financial institution and its track record have been debated about as often as the impact of NAFTA.

While free trade under NAFTA has boosted cross-border commercial and investment activity, it came at the cost of some U.S. jobs and Mexican wages. And while NADBank has made inroads--helping to establish water and wastewater services where, in some cases, none had existed--it occurred at a pace much slower than envisioned.

"In the beginning, there were difficulties with lending to local communities because our interest rates were too high or the communities didn't have the resources to repay loans," admitted Jorge Garcés, NADBank's deputy managing director. "But we were able to turn the corner in the last few years. Now we're moving into a new decade with recent reforms that both the U.S. and Mexican governments have approved."

Garcés predicted the legislative changes will have a far-reaching effect. The bank will have more leverage to help communities, after having gained the authority to lend money at below-market rates to local governments too poor to repay at full price.

NADBank also is expanding its involvement into more environmental sectors.

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Early Days

At the time NADBank was formed, many rural communities on the border, from Texas to California, were scraping by as they had for generations--living in poverty and without basic services.

U.S. and Mexican trade negotiators realized that lifting trade barriers would place greater pressure on the 2,000-mile border already struggling with overcrowding, public health crises, and environmental woes.

And not all the problems were rural. The sprawling city of Juárez, with a population of 1.2 million just south of El Paso, functioned with no wastewater treatment system. Sewage was collected from homes and eventually discharged untreated into the Rio Grande.

NADBank, based in San Antonio, was established to offer financial assistance for the construction of water and wastewater treatment facilities and municipal solid waste projects. With the U.S. and Mexico serving as equal partners, the institution was capitalized with \$3 billion in cash and pledges.



Oversight comes from a binational board of directors: three members from Mexico and three from the U.S. The chairmanship alternates between countries, as does the chief executive officer's position.

The bank provides direct financing in the form of loans or guaranties for construction of environmental projects certified by its sister organization, the Border Environment Cooperation Commission (BECC), and it administers grants from the Environmental Protection Agency.

The BECC, located in Juárez, has worked with NADBank in more than 100 communities on both sides of the border, providing technical assistance to communities and certifying infrastructure projects for financing consideration by NADBank and other sources, such as the Texas Water Development Board. The technical assistance, usually through private contractors, determines whether the proposed projects are feasible and technically sound.

"Our agency assists communities from the planning through the design phases of projects and helps them gain access to construction funding," said General Manager Fernando Macias of the BECC.

"Our public participation process has been one of the most significant contributions to project development. Through these efforts, communities get valuable public input and support," he said.

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A Slow Start

NADBank did not begin issuing loans for several years after its formation; even then activity remained low.

Lending operations were stalled by funding problems and the fact that while many rural communities knew what they needed, they had not fully analyzed the projects or developed them for financing packages. In Mexico, progress was hampered by the lack of affordable credit, particularly for small and mid-size communities.

Beth Eby, former city manager of Del Rio, recalls how many towns on the Texas border struggled with insufficient public services. "We had neighborhoods outside our city limits with no water or wastewater services. There were serious potential health hazards."

Texas and its Southern Neighbor <small>NADBank has participated with loans and grants in 51 infrastructure projects on either side of the border common to Texas and Mexico. Here are examples of some of the larger environmental improvements undertaken since 1997, when lending activity began to pick up.</small>				
Location	Cost of Project (in millions)	NADBank Assistance (in millions)	Types of Project	
TEXAS	Del Rio	\$44.6	\$15.2	New water treatment plant
	Eagle Pass	105.3	18.0	Water and wastewater regional system improvements
	El Paso	37.8	14.9	Water treatment plant expansion
	La Joya Water Supply Corp.	92.5	27.6	New wastewater collection system
	San Benito	32.4	19.9	Water and wastewater improvements
MEXICO	Ciudad Acuña, Coahila	\$78.8	\$22.0	Construction of comprehensive sanitation project
	Juárez, Chihuahua	31.5	16.8	Two new wastewater treatment plants
	Matamoros, Tamaulipas	76.6	33.0	Phase 1, comprehensive water and wastewater project
	Reynosa, Tamaulipas	83.4	33.5	Comprehensive sanitation project

Mexico was in worse shape, she recalled. "Cities of such a size--this would be unimaginable in the U.S.--did not have centralized wastewater treatment."

With some structural changes, the bank began getting financial and technical assistance to many border towns. Del Rio finally got the means to run water and sewer connections to the outlying colonias and to treat the local drinking water drawn from an aquifer, Eby said.

One milestone was establishing wastewater treatment in Juárez. NADBank financed about half of the \$31.5 million cost for building two primary treatment plants, as well as the collectors, pumps, and sewer lines. The 2000 startup of both plants eliminated the discharge of untreated wastewater directly into the Rio Grande.

"If you don't understand why that was important, just look at the map," explained Eby. "Look at where Mexico was discharging sewage into the Rio Grande and where U.S. communities were pulling out water. That situation not only degraded the quality of water in the river, it forced the U.S. side to spend much more treating the water to make it usable."

Eby now serves as director of the Frank M. Tejeda Center for Excellence in Environmental Operations. The nonprofit in San Antonio provides free assistance to border communities in Texas and other states needing help with the financial, managerial, or technical aspects of water and wastewater systems.

In a study of NADBank's technical assistance, the Tejeda Center looked at the array of projects in which the bank has participated: building water and wastewater facilities, providing residential hookups, replacing earthen canals with

concrete channels, and expanding landfills. Projects in Mexico also included paving dirt roads and closing open-air dumps to open new sanitary landfills.

"This is still a very new institution that has evolved in response to customer demands," Eby said. "There have been significant gains under NADBank, especially in Mexico, and yet much remains to be done."

While some longstanding border problems have been tackled, she noted that the next phase is just as important, but perhaps harder.

"That is too bring services to smaller, more remote communities. Serving these areas will require creative solutions," she said.

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A New Era

To prepare for the challenges of a second decade, a host of important reforms are taking effect, according to NADBank's Garcés.

First, a new, single board of directors for both NADBank and the BECC will be created, replacing two separate boards. This move was ordered by the U.S. and Mexican governments to improve efficiency and coordination.

Among the other reforms that are already in place or soon to be implemented are:

Lending capacity and flexibility. The two governments created a new grant fund out of the bank's paid-in capital and increased the monies available for low-interest rate lending. NADBank now has up to \$100 million (double the previous cap) for loans that are below market rates.

Expanded geography. The initial charter only allowed for financing projects within 62 miles of either side of the border. The bank's jurisdiction into Mexico is being tripled--to 186 miles--to cover more of the interior and the capitals of most border states. This will give more underdeveloped areas and cities such as Monterrey and Saltillo access to low-cost capital available at NADBank.

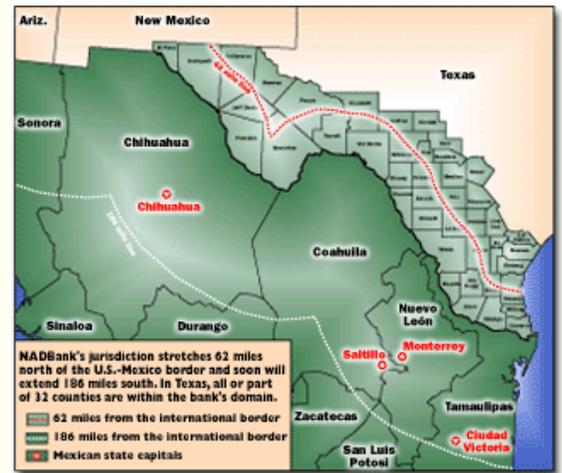
Expanded projects. NADBank now has the latitude to delve into other types of environmental projects. Those new areas include air quality, water conservation, energy efficiency in public and industrial buildings, and clean energy production, such as wind-generated electricity.

Finally, Garcés said, the bank is wrapping up a business process review that he said was conducted in response to criticism that it takes too long to certify projects and work out financial packages.

"All of these reforms will help us meet a wider scope of infrastructure needs while continuing to serve our core sectors of water and wastewater services," said Garcés. "We're hoping that with this kind of help, communities can become self-sufficient. We are very encouraged."

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NADBank's Geographical Domain (as it applies to Texas and the Mexican states in the region)



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