

SUMMARY OF THE PROJECT IN DESIGN * (*)

A Clean Solution for a Dirty Problem: Using Outcome-based Finance to Expand Access to Safe Sanitation, Clean Water and Climate Resilient Infrastructure

PITCH ELIGIBILITY DATE		COUNTRY(IES)
12/26/2022		Dominican Republic
ALIGNED WITH COUNTRY STRATEGY?		
Yes		
PARTNER(S)		
Habitat para la Humanidad Dominicana		
PRELIMINARY CLASSIFICATION ENVIRONMENTAL AND SOCIAL IMPACT		
B (**)		
TOTAL BUDGET	IDB Lab	LOCAL COUNTERPART AND COFINANCING
US 900,000	US 600,000	US 300,000
DESCRIPTION		

The problem The COVID-19 pandemic underscores the urgent need to improve global access to safe drinking water and sanitation. Nearly half of the world's population lack these essential services. Without a fourfold increase in the rate of adoption of modern sanitation measures, one third of the globe will remain without access to these requisites for public health by 2030, missing a Sustainable Development Goal (SDG). Water and sanitation services have for most countries been the purview of the public sector, but extensive needs and fiscal constraints demand innovative solutions. These models incentivize efficiency, innovation and creative partnerships with private and public investors while targeting verified project outcomes and market rigor in execution.

The Dominican Republic must expand access to treated sewage to protect both the health of its citizens and its natural ecosystems. Access to basic sanitation in the country has increased significantly over the past decade, but only 27% of Dominicans are connected to a sewage network. Half of Dominicans use septic tanks, many of which are untreated or poorly maintained. Persons with disabilities (PWD)—who comprise 10% of households in coastal communities such as Boca Chica— are challenged by informal bathrooms located outside of the home and are less likely to own eyeglasses and other aids than wealthier households.

The Dominican Republic is the 11th most vulnerable country to climate change and climate-related risks act as crisis multipliers, challenging health and sanitation infrastructure. Increasing floods cause untreated septic tanks to overflow and spread waterborne diseases, thereby contaminating the water supply. Other climate risks such as extreme heat exacerbate this threat. The country cannot afford the US\$621 million needed to provide universal access to clean drinking water and toilets. Upgrading wastewater collection, treatment facilities and increasing climate resilience would cost considerably more.

To date, cultural norms in the Dominican Republic have tolerated non-payment and clandestine access to sanitation services. Despite campaigns to increase payment rates, the National Institute of Potable Water and Sewage (INAPA) recovers just 30% of its operational costs from ratepayers. Only 50% of users pay for services, and an estimated 30% of

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**The IDB categorizes all projects into one of six E/S impact categories. Category A projects are those with the most significant and mostly permanent E/S impacts, category B those that cause mostly local and short-term impacts, and category C those with minimal or no negative impacts. A fourth category, FI-1 (high risk) Financial Intermediary (FI)'s portfolio includes exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, mostly irreversible or unprecedented, FI-2 (medium risk) FI's portfolio consists of business activities that have potential limited adverse environmental or social risks or impacts, FI-3 (low risk) FI's portfolio consists of financial exposure to business activities that predominantly have minimal or no adverse environmental and social impacts.

connections are illegal. Moving forward, the country must instill a greater acceptance of payment for service to attract the outside investment and finance that delivers safe sanitation in an era of constrained budgets. INAPA and its partners need innovative and sustainable financing instruments that focus resources on what matters most.

The solution This Pilot will test a scalable, outcomes-based contracting mechanism to increase formal connections to sewage systems. If proved successful, this mechanism will be scaled through an IDB loan to INAPA (DR's water and sanitation authority) aimed to increase the access of vulnerable population to sewage systems in coastal areas. IDB's Water and Sanitation Division (WSA) and INAPA will build on the learnings of this pilot in a second project phase to expand sewage connections for vulnerable groups via a national outcomes-based program thanks to the IDB loan.

This outcomes-based mechanism will help INAPA and the IDB to navigate fiscal challenges and deliver enhanced performance of the Water and Sanitation sector by:[1] (a) Tying results to critical performance indicators and harnessing incentives that improve operational efficiency and project execution; (b) Enabling INAPA to generate revenues by incorporating data, empirics and rigorous feedback loops into the results-based mechanism; (c) Building

institutional cultures and capacities around results and performance management, thereby creating systems for performance measurement and standardized measurement systems.

The beneficiaries This Pilot will target 200 vulnerable households in coastal areas and benefit around 1,000 vulnerable individuals. Priority will be given to limited-income populations, vulnerable communities, women-led households, people with disabilities and other traditionally excluded and vulnerable groups.

The partners Key partners include:

Habitat for Humanity: It will be the executing agency, a globally recognized NGO in housing improvements, that will lead a network of local actors with different assets and contributions to the project, with technical expertise and experience in similar projects, with partners in the private sector. It is expected that HFH will be joined by other implementing partners.

INAPA: A microfinancing institution, construction materials companies, local foundations/impact investors, and local governments among others. A key operational stakeholder and future outcome payer, it will support the strategic direction of the project, negotiations, data access, learning agenda and provide sector expertise.

Local government: The sanitation service is largely managed by the municipalities themselves and they are therefore key players. They will support negotiations, learning committees and operations throughout the project lifecycle.

The IDB Lab contribution The total amount of funding requested will be the mobilization of US\$6,00,000 of Non-Reimbursable Technical Cooperation.

Source of innovation will contribute up to US\$400,000 in non-reimbursable funding for components 1, 2, 3, and 4, WSA through the RG-T4041 Technical Cooperation will contribute with US\$200,000 to support component 3.

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