

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

**SOURCE OF INNOVATION: A FACILITY FOR FOSTERING INNOVATION IN THE WATER,
SANITATION AND SOLID WASTE SECTOR IN LATIN AMERICA AND THE CARIBBEAN**

RG-O1693, RG-T3881

FACILITY DOCUMENT

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ELECTRONIC LINKS	
EL#1	Results Matrix
EL#2	Safeguard Policy Filter (SPF) and Safeguard Screening Form (SSF)
EL#3	Draft Operation Manual

ABBREVIATIONS	
AA	Administrative Agreement
AI	Artificial Intelligence
CTI	Competitiveness, Technology, and Innovation
CHF	Swiss Franc
ESMR	Environmental and Social Management Report
ESS	Environmental and Social Strategy
FC	Facility Coordinator
KIC	Knowledge, Innovation and Communication Sector
IA	Implementing Agency
IDB	Inter-American Development Bank
IDB Lab	Multilateral Investment Fund
INE/WSA	Water and Sanitation Division – Infrastructure Department
IG	Investment Grants
LAC	Latin America and the Caribbean
PSG	Project-Specific Grant
R&D&I	Research, Development, and Innovation
SDG	United Nations Sustainable Development Goals
SPF	Safeguard Policy Filter
SSF	Safeguard Screening Form
SWM	Solid Waste Management
TC	Technical Cooperation
TCA	Technical Cooperation Agreement
SDG	United Nations Sustainable Development Goals
WSS	Water, Sanitation and Solid Waste

PROJECT SUMMARY

REGIONAL

SOURCE OF INNOVATION: A FACILITY FOR FOSTERING INNOVATION IN THE WATER, SANITATION AND SOLID WASTE SECTOR IN LATIN AMERICA AND THE CARIBBEAN (RG-O1693, RG-T3881)

Implementation Arrangements and Budget			
Beneficiary Countries			
Inter-American Development Bank (IDB) Borrowing Member Countries			
Executing Agencies:			
The IDB (through INE/WSA) and legally established entities may receive and administer resources under this facility.			
Source	Amount (US\$)	%	
SECO	2,140,000	68	
FEMSA Foundation	1,000,000	32	
Total:	3,140,000	100	
Project Summary			
<p>Objectives: The general objective of this facility is to enable the development and integration of innovative solutions in the water, sanitation, and solid waste (WSS) sector that contribute to safely managed water, sanitation, and solid waste management services for all. The specific objectives are to: (i) strengthen the demand-side of innovative solutions and products; (ii) boost the supply of innovative solutions; (iii) stimulate productive partnerships between startups and entrepreneurs, water utilities, and investors; and (iv) promote a culture and an enabling environment for innovation in the WSS sector (¶1.17).</p> <p>Funding and Types of Financing: The facility will be funded by the Government of Switzerland through its State Secretariat for Economic Affairs (SECO) and by FEMSA Foundation, each in the amounts of CHF\$2 million Swiss franc, equivalent to US\$2,140,000 (exchange rate used US\$1.07 as of October 5, 2021) and US\$1 million, respectively. These donor funds will be provided to the IDB through individual Project-Specific Grants (PSGs), which will be administered by the IDB pursuant to the “Report on COFABS, Ad-Hoc and CLFGS and a Proposal to Unify Them as Project Specific Grants (PSGs)” (Document SC-114). In accordance with that document, each of the donors’ commitments for the PSGs will be established through a separate Administrative Agreement. The facility will provide financing to public and private sector entities through: (i) non-reimbursable technical assistance and investment grants (IGR) of the IDB and IDB Lab; and (ii) contingent recovery technical assistance and investment grants of IDB Lab. In all cases, resources will be channeled through projects to be approved by IDB or IDB Lab, as provided herein. All projects will have to comply with the eligibility criteria described in this document (¶3.1). The facility is open to additional contributions from external donors up to an aggregate amount of US\$15 million (¶3.6 and ¶3.8).</p> <p>Structure: The facility will be structured in four components: Component 1: Strengthening of demand for innovative solutions (US\$1,240,000); Component 2: Boosting supply for sectoral innovation (US\$537,000); Component 3: Stimulating productive partnerships between startups and entrepreneurs, service providers and investors (US\$586,000); and Component 4: Promoting a culture and an enabling environment of innovation in the WSS sector (US\$250,000). The remaining resources will be allocated to project administration, management costs and to monitoring and evaluation (US\$387,000), and contingencies (US\$140,000) (¶2.1).</p> <p>This facility will be complemented by the US\$2 million IDB Lab facility RG-O1690 (subject to approval separately by the IDB Lab Donors Committee). It is expected that RG-O1690 will co-fund projects under Component 2 and Component 3 of this facility (¶2.8).</p>			
Exceptions to Bank Policies: None			
Strategic Alignment			
Challenges ^(d) :	SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Cross-Cutting Issues ^(e) :	GE <input checked="" type="checkbox"/> and DI <input checked="" type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>

^(a) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(b) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. FACILITY AND OBJECTIVES

A. Background, problem addressed, and justification.

- 1.1 **Water, Sanitation and Solid Waste Management (WSS)¹ Services in Latin America and the Caribbean (LAC).** According to the monitoring statistics associated with the Sustainable Development Goals (SDG), only 74.32 percent of the population in the LAC region have access to safely managed water services and 31.32 percent to safely managed sanitation,² which translate to 165 million people and more than 440 million, respectively, without access to safely managed water and sanitation services. This does not consider the issues related to solid waste, with major challenges associated with the management of waste at the household and municipal level, including recovery and final disposal, and with the management of non-municipal waste such as healthcare, construction and demolition, and industrial waste. Currently, about 69 percent of the municipal waste in LAC is disposed of in some form of landfill, though many could be considered open dumps and poorly controlled dumpsites. Only half of this waste disposed by landfilling is receiving proper environmental controls. As for recovery, the region recycles only 4.5 percent of its waste.³
- 1.2 The investments needed to meet the SDG targets in safe water and sanitation (clean water and sanitation for all) are more than three times their current level, amounting to an estimated minimum of US\$14 billion per year until 2030.⁴ For municipal solid waste, preliminary estimates indicate a required amount of US\$12 billion (20% CAPEX and 80% OPEX).⁵ This does not consider the resources needed to improve the management of water resources, urban drainage, and solid waste; and particularly for solid waste, these figures do not consider the resources needed by other streams such as hazardous waste, healthcare waste construction and demolition waste. It is not possible to achieve the SDG goals only by leveraging economic-financial resources in conventional programs and by adapting traditional management models. The sector must adopt and incorporate innovative solutions and models at the technological, institutional, financial, and social levels to allow the acceleration of access to safe drinking water, sanitation, and solid waste services throughout LAC.
- 1.3 **The potential for innovation in Water, Sanitation, and Solid Waste.** Recent studies⁶ elaborated by the Bank have proved that innovation is already playing a key role in increasing and improving access to more efficient quality water, sanitation, and solid waste services in LAC. This sector presents innovative

¹ Throughout all this document, water and sanitation services include solid waste management as part of sanitation services, and the acronym WSS represents water, sanitation, and solid waste management services.

² Progress on household drinking water, sanitation, and hygiene 2000-2017. UNICEF, JMP, WHO. 2019.

³ What a Waste 2.0: A Global Snapshot of Solid Waste Management to 2050. Urban Development. Washington, DC. Kaza, S. et al. World Bank. 2018.

⁴ The Costs of Meeting the 2030 Sustainable Development Goal Targets on Drinking Water, Sanitation, and Hygiene. Hutton, G. and Varughese, M. World Bank. 2016.

⁵ IDB internal consultancy report. 2020.

⁶ Innovations you didn't know were from Latin America and the Caribbean. Mastrangelo, IDB. 2018; Innovation in Water, Sanitation, and Solid Waste Assessment, perspectives, and opportunities for Latin America and the Caribbean. Minatta, A. and Basani, M. Technical note DB-TN-01974. 2020.

dynamics that differ from other sectors such as those closely linked to information and communications technology (e.g., fintech, e-health, intelligent transport). In the WSS sector, the type of sectoral innovations is generally more incremental than disruptive, and innovation is often vested in the public sector, historically more conservative⁷ and slower⁸ when it comes to implementing a proactive culture of innovation. The innovative solutions that have had a larger impact in LAC come as a result of creative combinations of social and organizational solutions with technological innovations.

- 1.4 **The potential impact** of adopting innovative solutions for service provision is substantial. In general, for utilities, the technological **digital transformation** of systems and processes can result in a reduction in operating expenses of up to 25 percent.⁹ The World Economic Forum frames the adoption of digital technologies among industrial sectors within the concept of the Fourth Industrial Revolution and identifies the digital transformation of water management and services as part of this revolution. Advanced technologies can transform the business models required for the provision and maintenance of water, sanitation, and hygiene services and, in doing so, unlock a variety of new economic opportunities.¹⁰ The concept of the **Internet of Water** is being proposed as a priority to share integrated sectoral data in an open way, to facilitate decision-making processes and improve the transparency of the sector.¹¹ In fact, the innovation of the water systems through data science and augmented intelligence techniques are enabling situational awareness or near-real time flow and quality monitoring.¹² Within this framework, advanced digital technologies can become a fundamental agent of change in the modernization of WSS infrastructure at a global level.
- 1.5 At the international level, **digitalization initiatives** in the sector have already resulted in operating gains of up to 25 percent and have reduced water supply failures by around 30 percent and the duration of pipe bursts repairs by 8 percent, also increasing the reliability of data to almost 99 percent¹³ thanks to the immediacy of precise sensor readings. Similar results have been confirmed by the Bank-financed pilots in Argentina and Brazil. New approaches of *Industry 4.0* are also being developed and implemented in the field of waste management (for processes related to collection and logistics, machines and waste treatment plants, business models and data tools), with promising results, especially within the context of the circular economy.¹⁴ Smart recycling or Artificial Intelligence (AI)

⁷ Barriers to Innovation in Urban Wastewater Utilities: Attitudes of Managers in California. Kiparsky et. al. Springer Science + Business Media NY. 2016.

⁸ The adoption of a water technology may require more than 10 years. O'Callaghan, P., Daigger, G., Adapa, L. & Buisman, C., Development, and application of a model to study water technology adoption. Water Environmental Res. 90, 563–574. 2018.

⁹ The Digital Utility: New challenges, capabilities, and opportunities McKinsey & Company, 2018.

¹⁰ Harnessing the Fourth Industrial Revolution for Water. Fourth Industrial Revolution for the Earth Series. 2018.

¹¹ Internet of water revisited. Building an Internet of Water. The Aspen Institute, 2017.

¹² Improvements in event response times by 20 percent, increases in work reutilization by 25 percent, 15 percent reductions in energy use across the network and other benefits across the water value chain are possible, specifically in the area of asset management. IWA World Water. R. Eggers and other thought leaders at the International Congress. 2018.

¹³ Water World Digital Twins for Managing Water Infrastructure. [DOI](#). January 4. 2020.

¹⁴ Digitalization and intelligent robotics in value chain of circular economy-oriented waste management. A review. Waste Management 95:476-492. Sarc, R. et al. 2019.

backed systems are supporting new mechanisms to finance water infrastructure and management.¹⁵

- 1.6 Innovation through the combination of **smart metering and the Internet of Things (IoT)** is key to develop smart water management systems serving both consumers and water utility companies and fostering sustainability, strengthening processes such as water leak detection, river water quality real-time monitoring, water flow monitoring, short-term water consumption and water demand forecasting.¹⁶ This has been confirmed by Bank-led initiatives and products, such as HydroBID.¹⁷
- 1.7 As seen in other sectors, the COVID-19 pandemic is likely to act as a catalyst in the transition to a more digitalized water sector. While digitalization is already present in the water management sector (especially in developed countries), both the extent and characteristics of its consolidation will be accelerated. An estimated 80 percent and 50 percent of the water utilities in developed and developing countries respectively, are expected to undergo a digital transition by 2025.¹⁸
- 1.8 If compared to other developing regions, WSS service coverage in LAC is high, but there are still gaps in access to services, with rural and peri-urban areas lagging behind. These areas present peculiarities that make service provision more challenging, such as population density – extremely high in some peri-urban areas or slums making it impossible to have grid services, or extremely low for hard-to-reach and dispersed rural spots where the only viable solutions are individual systems such as rainwater harvesting. In addition, most of the population in these areas are among the most vulnerable, with high poverty rates. **Also, technical, and social innovation** can play a key role in achieving universal access to safely managed services in LAC. Everyone must be reached, and for doing so, innovative technologies and business models are flourishing to provide services in a safely managed and affordable manner. Technical innovations such as an off-grid solution that uses the power of the sun to extract a volume of water from the air that can be deployed in hard-to-reach communities in very dry areas, are being developed by innovators and piloted both in LAC and globally.¹⁹ Also, innovative approaches such as business models designed for the base of the pyramid can make these services affordable for the most vulnerable,²⁰ as social behavioral change programs can ensure an appropriate use of water services that have proven to be successful in reaching the most vulnerable.
- 1.9 Recognizing this potential, some utilities in recent years have invested in innovation and, in some cases, created new dedicated departments for research and innovation. This is the case of top-end service providers such as the Companhia de Saneamento Básico do Estado de São Paulo (SABESP, in San

¹⁵ When the fourth water and digital revolution encountered COVID-19. Poch, M. et al., (2020). Science of The Total Environment, Volume 744, 20 November 2020, 140980.

¹⁶ How can innovation theories be applied to water technology innovation? O'Callaghan, P. Journal of cleaner production Volume: 276. ISSN: 0959-6526. 2020.

¹⁷ Step by step guide. HydroBID Manual. Nalesso, M. y Coli, P. 2018.

¹⁸ Smart Cities: Digital Solutions for a More Livable Future. Woetzel J., et al. McKinsey Global Institute. 2018.

¹⁹ See for example: <https://www.source.co/>

²⁰ See the example of SOIL, a startup providing sanitation services through a container-based sanitation system to poor populations in Haiti.

Paulo, Brazil), the Empresa Pública Metropolitana de Agua Potable y Saneamiento (EPMAPS - Agua de Quito, Ecuador) and Agua y Saneamiento Argentinos SA (AySA, in Buenos Aires, Argentina) which, following international examples,²¹ have fostered a new culture that encourages employees to identify emerging technologies, undertake scientific research, and ultimately make transformational change.

1.10 Key challenges in the enabling innovation environment for facilitating the development and application of solutions towards universal access to efficient and sustainable WSS in LAC. Even recognizing these exceptions and the potential for the adoption of innovative solutions and practices, the rate of innovation and technology uptake in the sector is relatively slow compared to other sectors mainly because of the conservative nature of the industry.²² It is observed that, in general, the water, sanitation and solid waste operators in the region do not yet have the tools to analyze the level of advance/predisposition towards innovation and to define clear strategic objectives on the subject, nor guidelines on how to foster a new culture of innovation. This is valid also for other actors in the ecosystem, including policy makers and regulators. Among the main obstacles that hinder the development and promotion of innovation, an IDB study²³ identified the following:

- a) *A weak and fragmented demand-side:* the level of innovation among WSS service providers throughout the region is marginal in most cases, dropping to even lower levels for those responsible for rural areas. An IDB study revealed that most utilities in the sector in LAC do not consider or manage innovation as a business process and admit they apply very few innovation practices.²⁴ As for the solid waste sector: notwithstanding the improvements and innovations that are being proposed, much is required to scale up their impacts.²⁵ Service providers in the sector lack internal incentive mechanisms to promote Research and Development (R&D) activities such as budget allocation and recognition for staff engaging in R&D activities. Furthermore, joint innovation activities with other stakeholders (open innovation),²⁶ such as suppliers, tech centers, and/or entrepreneurs, are exceptional, although there are some signs of higher predisposition to collaborate in pilot projects. All this is compounded by the low capacity of service providers to assess existing innovative solutions and products to improve WSS services.
- b) *A supply side with little incentives:* the little demand for Research, Development, and Innovation (R&D&I) services from institutions as well as innovative startups (the structural business fragmentation in the WSS),

²¹ International examples include Singapore's National Water Agency (Singapore), DC Water – District of Columbia Water and Sewer Authority (USA), Mekorot (Israel) and Sydney Water (Australia).

²² The term 'water innovation' appeared for the first time in the published academic literature in 2004. Exploring the dynamics of water innovation: Foundations for water innovation studies. When, U. and Montalvo, C. Journal of Cleaner Production. 2018.

²³ Innovation in Water, Sanitation, and Solid Waste Assessment, perspectives, and opportunities for Latin America and the Caribbean. Minatta, A. and Basani, M. Technical note DB-TN-01974. 2020.

²⁴ Innovation in Water, Sanitation, and Solid Waste Assessment, perspectives, and opportunities for Latin America and the Caribbean. Minatta, A. and Basani, M. Technical note DB-TN-01974. 2020.

²⁵ What a Waste 2.0: A Global Snapshot of Solid Waste Management to 2050. Urban Development. Washington, DC: Kaza, S. et al. World Bank. 2018.

²⁶ The era of open innovation. MIT Sloan Management Review. Chesbrough. 2003.

is compounded by the absence of activities that acknowledge, promote and foster innovation from the supply side. In general, WSS stakeholders in LAC lack access to financing mechanisms adapted to the specific needs and characteristics of each step in the R&D&I process. Examples of this include short repayment terms, lofty guarantees, and almost inexistent grace periods for tech centers seeking to purchase equipment. From the perspective of capital growth and acceleration, there is an absence of consolidated incubation and acceleration facilities, and in addition, Venture Capital Funds actively seeking to invest in startups in their initial stages are scarce. Also, the limited inclusion and integration of multiple disciplines (e.g., data management, statistics, sociology, industrial design, logistics, etc.) is due, in part, to the lack of common goals and shared language. These characteristics slow down technological developments for innovation and constitutes a major barrier to efficient service provision in the R&D&I centers.²⁷

- c) *Poor coordination between the demand and the supply of innovative solutions:* although the contribution of R&D&I to the sector may be very relevant,²⁸ in the Region there are very few service providers involved in the generation of R&D&I.²⁹ The multiplicity of national, regional, and/or municipal public agencies with different competences and roles³⁰ hampers their ability to cooperate in the design, approval, and execution of strategies and policies, or to promote R&D&I. Over twenty-five tech centers,³¹ university departments, and think tanks have been identified as possible innovation *engines* for the sector in LAC,³² but the region lacks open mechanisms to articulate and promote the interaction among sectoral stakeholders and, in particular, between the demand and supply of innovation.³³ In practice, service providers and innovators do not talk to each other. In addition, most of the programs supporting the integration of innovation rely only on pilots, but there is no further dialogue with potential investors to achieve economies of scale and a financing muscle that can allow successful innovative solutions to be deployed at scale.
- d) *Poor innovation culture throughout the ecosystem:* the culture of innovation – as occurs with belief systems, habits, values, attitudes, and traditions that

²⁷ Modelos de gestión de centros tecnológicos sectoriales: elementos de un análisis comparado, Dini y Tassinari. CEPAL. 2017.

²⁸ Research ‘...can make irreplaceable contributions to ensuring the water supply for our population, to the conservation of our ecosystems and the prosperity of our biodiversity, and to the sustainability of our productive and exportation matrix...’. R&D&I National Strategy for the Sustainability of Water Resources. Chile. 2016.

²⁹ Innovation in Water, Sanitation, and Solid Waste Assessment, perspectives, and opportunities for Latin America and the Caribbean. Minatta, A. and Basani, M. Technical note DB-TN-01974. 2020.

³⁰ Water Governability in Latin America and the Caribbean: A multilevel point of view. OECD. 2012.

³¹ Regarding waste, none are specific; there are no outstanding developments with the exception of some specific case supported by the National Agency for Investigation and Innovation (UCU – Unilever) in Uruguay. 2017.

³² Innovation in Water, Sanitation, and Solid Waste Assessment, perspectives, and opportunities for Latin America and the Caribbean. Minatta, A. and Basani, M. Technical note DB-TN-01974. 2020.

³³ The Future of Water and Sanitation Services in Latin America. The challenge of urban area operators. IDB-CAF. 2015.

foster *innovation*— is crucial to the development of WSS service providers.³⁴ However, the culture of innovation among service providers in LAC represents less than one-fifth of the international reference threshold value for the sector. Also, most countries do not have or have not completely implemented a legal and institutional policy sectoral framework to favor innovation.³⁵ Additionally, the nature of the WSS sector, essential for protecting public health, the environment, and local economies,³⁶ historically resulted in a strong regulation environment not necessarily open to engaging in the risks inherent in innovation and change. That said, public policy on innovation³⁷ tends to be a relatively new field and its formulation, development, and assessment are still incipient in many LAC countries.

- 1.11 These obstacles are aggravated by intrinsic gender and inclusion sectoral gaps. Firstly, women are underrepresented in key positions within water and sanitation utilities, despite being essential users and main decision-makers on water use in the home.³⁸ Also, it is well known that a lack of access to water, sanitation and hygiene affects women, minorities, or marginalized groups disproportionately, due both to biological and cultural factors exacerbated by facets such as ethnicity, social status, sexual orientation, or disability status.³⁹ Finally, the representation of women in the innovation ecosystem is still incipient. Even though Latin America and the Caribbean is the region with the highest percentage of female entrepreneurship, men-owned businesses are still more prominent⁴⁰ and statistically companies led by women receive less financial support.⁴¹
- 1.12 Additionally, evidence presented by the latest Intergovernmental Panel on Climate Change reports indicates that climate change is altering the seasonality of local and regional hydrology and causing greater variance in the probability distribution of precipitation and temperature. In some areas, climate change is also increasing the intensity and frequency of extreme events affecting infrastructure, local communities, and key ecosystem services. Furthermore, climate change is believed to be affecting the trends and characteristics of El Niño and La Niña, potentially altering historical patterns of regional climate systems connected to this cyclical interdecadal event. At the same time, slow onset impacts of climate

³⁴ The New Imperative of Innovation Policy Perspectives for Latin America and the Caribbean. Navarro, J.C., Crespi, G. and Benavente, J.M. IDB. 2016; Three of the five main innovation inhibitors for W&S suppliers are linked to organizational culture. Fostering Innovation Within Water Utilities Water Research Foundation & Water Environment and Reuse Foundation Project #4642. 2017; La importancia de la cultura de la innovación. Factor clave para la competitividad de las empresas. Community of Madrid. 2010.

³⁵ El marco legal e institucional y la organización industrial. “El futuro de los servicios de agua y saneamiento de América Latina: Desafíos de los operadores de áreas urbanas de más de 300.000 habitantes”. Lentini, E. Discussion paper. IDB-CAF. 2015.

³⁶ Innovation in the water industry: barriers and opportunities for US and UK utilities. WIREs Water published by Wiley Periodicals, Inc. 2015.

³⁷ Innovation Policies for Latin America and the Caribbean. Nuevos Caminos. Navarro, J.C. and Olivari, J. (Editors). IDB. 2016.

³⁸ Women in Water Utilities: Breaking Barriers. World Bank, Washington, D.C. 2019.

³⁹ Understanding empowerment in water, sanitation, and hygiene (WASH): a scoping review. Dery, F. et al., (2020), Journal of Water, Sanitation and Hygiene for Development 10.1, 2020; A guidance note for leaving no one behind. UNICEF 2021; Including Persons with Disabilities in Water Sector Operations: A Guidance. World Bank. 2017.

⁴⁰ Toward Realizing the Potential of Latin America's Women Entrepreneurs: An Analysis of Barriers and Challenges. Alecchi, B.A. 2020. Latin American Research Review, 55(3), 496–514.

⁴¹ Inversión con un enfoque de género: Cómo las finanzas pueden acelerar la igualdad de género para América Latina y el Caribe, Buckland et al., (2019), BID Invest. 2019.

change such as sea level rise or the steady increase of mean temperature are becoming multipliers of on-going environmental degradation effects, affecting herewith water resources quality. Other impacts in the region include the rapid retreat of tropical glaciers affecting water availability in the Andean region. Altogether, these physical impacts directly affect the reliable provision of water and sanitation services.⁴²

- 1.13 It is in this context that the Bank, through its Water and Sanitation Division (INE/WSA) and in coordination with BID Lab, met the interest of the Government of Switzerland -through its State Secretariat for Economic Affairs (SECO)- and FEMSA Foundation to co-create this facility. SECO and [FEMSA Foundation](#)⁴³ are key actors in the international innovation arena, with a proven pluriannual technical focus and with clear priorities aligned to the objective of the proposed operation. Both entities will not only provide funding, but also technical know-how.
- 1.14 **Strategic Alignment.** The facility is consistent with the **Second Update to the Institutional Strategy** (AB-3190-2) and is aligned with the development challenges of: (i) *Productivity and Innovation* by having a focus on aiding in the provision of infrastructure services and adequate, safe, reliable, and affordable public services through the integration of innovative solutions that will improve service efficiency and therefore contribute to economic growth. The facility will strengthen innovation ecosystems in the region and develop human capital and capacities for service providers and innovators; and (ii) *Social Inclusion and Equality* by supporting interventions that promote universal and sustainable access to quality and affordable WSS services. The facility is also aligned with the cross-cutting areas of: (i) *Climate Change (CC) and Environmental Sustainability* by financing innovation solutions that will result in more resilient services, better data management and new mechanisms to ensure the quality and availability of water, while contributing with the goals and priorities on mitigation and adaptation of National Determined Contribution (NDC) and Long-term climate Strategies (LTs); (ii) *Institutional Capacity and the Rule of Law*, as the facility will finance activities to strengthen the enabling environment to foster innovation in the sector. In particular, the facility will leverage technology to improve sectoral actors' efficiency and the capacity to coordinate among entities within the ecosystem. This will be done in close coordination with parallel activities outside the facility that promote open government and transparency while leveraging technology;⁴⁴ and (iii) *Gender Equality and Diversity*, by promoting women and marginalized groups engagement in innovation both at the utility level, ensuring a fair representation of the female and diverse staff of service providers in all actions directed to the demand, in the innovative solutions, guaranteeing inclusive and gender friendly services, and in the innovation ecosystem by promoting startups and innovative solutions led and developed by women. The facility is also aligned with the Corporate Results Framework 2020-2023 (GN-2727-12) and will

⁴² Various authors, Servicios de agua potable y saneamiento resilientes en América Latina y el Caribe. Paltan, H. et al. (2020). Technical note IDB-TN-01988. 2020.

⁴³ FEMSA Foundation was created in 2008 to make social investments to have a positive impact on people's lives and build more solid and sustainable communities. The Foundation focuses on three areas: water and sanitation, watershed conservation, and applied scientific research.

⁴⁴ The [ATN/AA-17281-RG](#) and [ATN/MA-17280-RG](#), in particular, include activities that aims specifically to promote open government and transparency through technology, communication and information improvements.

contribute towards the indicator “Agencies with strengthened digital technology and managerial capacity”.

- 1.15 The facility is also aligned with: (i) the "Sustainable infrastructure for competitiveness and inclusive growth" strategy (GN-2710-5), in the priority areas for action to: "Promote access to infrastructure services", "Promote continuous improvements in infrastructure governance" and "Support the construction and maintenance of environmentally and socially sustainable infrastructure"; and (ii) the Water and Sanitation Sector Framework Document (GN-2781-8), specifically with the dimensions of success and lines of action related to universal access and improvement of the quality of services, enhanced and more efficient utilities, and of social and environmental sustainability through the adoption of innovative solutions.
- 1.16 The facility justification finds further strength in the Development in the Americas-[DIA 2020](#). The flagship confirms that digitalization and technological advances, in addition to growing social demands and environmental concerns, will drive dramatic changes for infrastructure services in the coming years. In the WSS sector, in particular, technological change can help change the paradigm for organizing and operating sectoral services, promoting better monitoring, loss reduction, customers service practices, among others. For all this, the facility aligns with the IDB group [Vision 2025](#). With a focus on achieving sustainable and inclusive economic growth, the IDB vision emphasizes the need to mobilize greater financing to move towards digital economies, by facilitating access and creating the capacity to embrace digital technologies and foster innovation, strengthening the existing innovation and entrepreneurial ecosystems with the conviction that investments in technology, entrepreneurship, and venture capital, as well as in a more vibrant innovation ecosystem, will result in effective growth.

B. Objectives

- 1.17 The general objective of this facility is to enable the development and integration of innovative solutions in the water, sanitation and solid waste sector that contribute to safely managed water, sanitation, and solid waste management services for all. The specific objectives are to: (i) strengthen the **demand-side** of innovative solutions and products; (ii) boost the **supply** of innovative solutions; (iii) stimulate productive **partnerships** between startups and entrepreneurs, service providers and investors; and (iv) promote a culture and an **enabling environment** for innovation in the WSS sector. The facility will directly benefit WSS sectoral agencies, service providers and innovators, and indirectly households and users of such services in LAC.
- 1.18 To ensure a holistic approach to innovation, in each of its components, the facility will support: (i) technology innovation, including digital transformation, which brings a wide possibility of improvements for WSS providers; (ii) governance and service innovation, which makes utilities more efficient and enhances corporate governance; (iii) innovative financing, which opens new opportunities for funding; (iv) social innovation and design thinking, which addresses how services can be delivered, incorporating users' insights and addressing people's needs.

- 1.19 In doing so, the facility will capitalize on a series of activities and products on innovation promoted by Bank through INE/WSA in the past few years, including AquaRating, HydroBID, and lessons learned from past operations executed to promote and boost sectorial innovation. In particular, the Technical Cooperation (TC) projects [ATN/OC-17282-RG](#) and [ATN/JF-17189-AR](#) provided valuable insights on the importance of investing in tools and knowledge for innovation, of investing in pilots with committed beneficiaries and on securing space of dialogue between demand and supply of innovation. Also, the facility, with its proposed components and activities, is being built upon an -in-depth assessment of sectoral innovation,⁴⁵ on the work done on the innovation ecosystem in the region (through awards and open innovation calls), on a demand assessment conducted at a regional level, on methodologies and tools developed for the preparation of strategic innovation plans, and on a strong base of knowledge promoted by INE/WSA.

II. COMPONENTS AND RESULTS

A. Components

- 2.1 The facility will be structured in four components which will finance regional and country-specific projects.
- 2.2 **Component 1: Strengthening of demand for innovative solutions (estimated US\$1,240,000).** The goal of this component is to strengthen service providers by providing them with tools, methodologies, and opportunities to pilot innovative solutions. The following activities could be financed under this component: (i) gap diagnostics for the provision of WSS management services; (ii) application of methodologies and instruments for operators to: (a) identify, characterize, formulate and prioritize their main challenges (institutional, technical, operational, etc.) and identify and evaluate application opportunities for innovative solutions to address them, and (b) prepare strategic innovation plans with priorities and concrete actions for the short, medium and long term. This activity will build upon the focused analyses and innovation tools developed and integrated within AquaRating, a toolbox developed by the Bank to support water utilities assess and transforming their service performance level; and (iii) the financing of pilots to facilitate the application of sectoral innovative solutions in the region.
- 2.3 **Component 2: Boosting supply for sectoral innovation (estimated US\$537,000).** The goal of this component is to identify and support, dynamically and interactively, the supply of innovative solutions and products developed by the private sector and the innovation ecosystem. The following activities could be financed under this component: (i) organization of open challenges to identify innovative solutions; (ii) incubation of promising solutions; (iii) acceleration of proven solutions; and (iv) seed grants for start-ups to finance pilots and prototypes, to test new solutions in a small scale and under controlled environments, facilitating the identification of obstacles, measure results, and understand how to scale them up.

⁴⁵ Innovation in Water, Sanitation, and Solid Waste Assessment, perspectives, and opportunities for Latin America and the Caribbean. Minatta, A. and Basani, M. Technical note DB-TN-01974. 2020.

- 2.4 **Component 3: Stimulating productive partnerships between startups and entrepreneurs, service providers and investors (estimated US\$586,000).** The goal of this component is to strengthen the regional innovation ecosystem and its key actors and to create and strengthen spaces for dialogue. The following activities could be financed under this component: (i) capacity building and dialogue events with services providers, innovators and investors; (ii) regional and international events to showcase innovative solutions; (iii) technology surveillance and technical advisory services to end-users of innovation; (iv) mechanisms and tools to facilitate service providers access to innovative financing; (v) open innovation calls to match the needs of services providers with existing solutions or innovators that can provide solutions that are not yet available on the market but could be developed within a reasonable time frame; and (vi) the strengthening of regional innovation community of practice.
- 2.5 **Component 4: Promoting a culture and an enabling environment of innovation in the WSS sector (estimated US\$250,000).** The goal of this component is to facilitate cultural change towards innovation in the LAC's WSS sector. The following activities could be financed under this component: (i) the application of methodologies and instruments that allow service operators to assess their culture and governance levels for innovation; (ii) calls and awards to acknowledge and promote service innovation and excellence; (iii) development and application of tools to promote innovative processes and strategies, focusing on government entities; (iv) creation and support of innovation laboratories (as regional hubs) in companies and research centers in which, following the best international practices, innovation can be incubated, developed, promoted, and disseminated; (v) development of innovation and training tools; and (vi) preparation and dissemination of knowledge products, including new tools and methodologies to promote innovation and digitalization processes.
- 2.6 If needed, resources will be reallocated through components to meet the projects real demand.
- 2.7 **Project administration, management costs, and monitoring and evaluation (US\$387,000)⁴⁶** (administrative operation RG-T3881). Resources will be allocated to finance the facility's midterm and final evaluation, as well as a Facility Coordinator (FC), an innovation water and sanitation expert and an innovation solid waste expert, who will provide specialized support in their respective areas. This amount also includes the 5 percent administration fee. The resources of the facility may not supplement the IDB budget used for routine and customary activities and the FC and experts will be contracted with well-defined terms of reference with specific deliverables.
- 2.8 Subject to approval of the IDB Lab Donors Committee, the facility "Source of Innovation: A Facility for Fostering Innovation in the Water, Sanitation and Solid Waste Sector in Latin America and the Caribbean" (RG-O1690) (whose objective is to enable the development and integration of innovative solutions in the WSS sector by boosting the supply of innovative solutions, providing seed capital to early-stage innovation solutions, incubating and/or accelerating the most promising ones, stimulating productive partnerships between startups and

⁴⁶ See [Procurement Plan](#).

entrepreneurs, water utilities and investors) will co-fund projects under Components 2 and 3 (see Table 1), in accordance to IDB Lab policies and as duly reflected in the Operations Manual (OM). The projects implemented under Components 2 and 3 and under the IDB Lab lead (which entails preparation, approval and supervision) must also comply with the following parameters: (a) Impact IDB Lab target groups (i.e., poor and vulnerable population segments, and emerging economic units, including startups with innovative business models;⁴⁷ (b) Sustainability: each individual project will be assessed and designed with a sustainability strategy specific to the individual project, with the intention that the activities and outcomes of each project become sustainable in the medium term as is currently done with all other IDB Lab projects; (c) Scalability: the solution presents a clear path to be scaled up to affect the lives of more people and attract additional investors interested in joining forces with IDB Lab to deploy resources; (d) Innovative Approach: this is a new technology, a new application of technology, a new business model, or a new process for solving an important problem for the region, and the team clearly identifies its competitive advantages; (e) Counterpart contributions from executing agencies or other external investors towards the total costs of individual projects of at least 1:1 ratio to IDB financing (the sum of IDB and IDB Lab contribution to the specific project). The exact amount of local counterpart resources for each project will depend on the conditions and characteristics of each project and will be determined during the design phase.

- 2.9 **Projects' Eligibility Criteria:** All projects to be financed by the facility will have to meet the eligibility criteria established in this document. The processing, approval and implementation of each individual project will be subject to IDB or IDB Lab policies and procedures, as applicable. Upon request of a specific donor, special mechanisms for Bank's approval may be considered and detailed in a separate Administrative Agreement (AA). Projects to be financed under any of the facility's components must comply with the following criteria: (i) be aligned with the objectives of the facility; (ii) be approved at least twelve (12) months before the administrative closure date of the facility (duly taking into consideration the facility lifecycle and the timeframe of the contributions from the donors); (iii) have the capacity to feed the indicators as established in the Results Matrix; (iv) validation of the technical, financial, environmental and social feasibility by IDB's specialists when required; (v) comply with IDB's risk assessments and policies, including Environmental and Social Safeguards; (vi) comply with the IDB [Environmental and Social Policy Framework](#); (vii) duly consider any climate related risks with the corresponding mitigation actions; (viii) not being classified as Category "A" under IDB's Environmental and Social Safeguards Policy; and (ix) present a clear path for sustainability beyond the facility financing. With equal conditions and merit with respect to the rest of the established criteria, projects that incorporate knowledge products based on products, results and lessons learned will be given priority. While acknowledging all these criteria, a fair regional geographical representation will be sought, considering an average contribution between US\$100,000

⁴⁷ The potential impact of individual projects will be assessed following the IDB Lab's typical impact analysis, with the support of the Development Effectiveness Division-(DSP/DVF).

and US\$200,000 and taking into account any partial/soft earmarking expressed by the donors.⁴⁸

- 2.10 **Gender and diversity considerations at the project level:** All projects approved under the facility will include a gender and diversity assessment (including, among other things, potential issues related to women, indigenous and afro-descendant people, minorities, or marginalized groups) and, when a gender and/or diversity challenge is identified, an action plan. With equal conditions and merit with respect to the rest of the established criteria, projects that incorporate specific gender and diversity actions and goals will be given priority and presented for eligibility.

B. Key results indicators

- 2.11 Investments under this facility and Facility RG-O1690 will lead to, among others, the following measurable benefits: (i) adoption of innovative solutions by WSS service providers; (ii) increase in investment in innovative solutions; (iii) development of partnerships among start-ups, utilities, and investors; and (iv) the strengthening of ecosystems of innovation at sectoral level ([EL#1](#)). The results matrix may have to be adjusted after the midterm evaluation, depending on the project's real demand.
- 2.12 At least 15 percent of the projects financed by the facility will have to propose solutions to sectoral gender and diversity challenges. This will be reviewed during the pre-eligibility phase and will be monitored annually, assessing the inclusion and implementation of specific actions in the projects' implementation reports. It is expected that this facility will support and influence at least 15 percent of the Bank's yearly operations in WSS. This will be monitored annually, assessing the inclusion in the annual pipeline of activities that follow-up on, use or escalate products, processes, methodologies, and/or any innovative solutions promoted through the facility.

III. FINANCING STRUCTURE

C. Financing instruments

- 3.1 **Source of funding:** The facility will be funded by the Government of Switzerland through the State Secretariat for Economic Affairs (SECO) and by FEMSA Foundation. SECO will contribute CHF\$2 million Swiss franc, which is equivalent to US\$2,140,000 at the exchange rate of US\$1.07 as of October 5, 2021 (Bank's exchange rate). FEMSA Foundation will contribute US\$1 million. Resources provided by these donors have a non-reimbursable character (grant resources). The resources will be received by the Bank from each of the donors through individual Project Specific Grants (PSGs). The PSGs will be administered by the Bank according to the "Report on COFABS, Ad-Hoc and CLFGS, and a proposal to unify them as Project Specific Grants (PSGs)" (Document SC-114). As contemplated in these procedures, the commitment by each of the donors will be established through a separate AA. Under such AA, the resources for this project will be administered by the Bank and the Bank will charge a non-refundable

⁴⁸ SECO's contribution will have a soft earmarking for Colombia (CHF\$300,000) and Peru (CHF\$300,000), while FEMSA Foundation's contribution will have a soft earmarking for Mexico.

administration fee of 5 percent to each donor contribution as identified in the budget. The 5 percent administration fee will be charged upon the Bank's receipt of each contribution. Such administration fee will be distributed to the Bank's offices involved in the origination and execution of the grant to make-up for the costs associated with the administration and the execution of the contribution.

- 3.2 **Types of financing instruments:** The facility will deploy funding through: (i) **non-reimbursable Technical Cooperation (TC) and Investment Grant operations (IGR)** administered by IDB or IDB Lab, and (ii) **contingent recovery technical cooperation and IGRs** administered by the IDB Lab.⁴⁹ The use of these financing instruments will be defined by the financial needs of each project approved under this facility.

B. Budget and co-financing

- 3.3 **Budget:** The facility's budget will be structured as follows:

Table 1. Indicative Budget (in US\$)

Components	SECO	FEMSA Foundation	Total
Component 1. Strengthening of demand for innovative solutions	882,000	358,000	1,240,000
Component 2. Boosting supply for sectoral innovation	360,000	177,000	537,000
Component 3. Stimulating productive partnerships between startups and entrepreneurs, service providers and investors	288,000	298,000	586,000
Component 4. Promoting a culture and an enabling environment of innovation in the WSS sector	220,000	30,000	250,000
Administration, Management, monitoring & evaluation (RG-T3881)	250,000	137,000	387,000
Fund Coordinator	50,000	55,000	105,000
Innovation Experts	80,500	23,500	104,000
Monitoring & Evaluation	12,500	8,500	21,000
Administration Fee (5%)	107,000	50,000	157,000
Contingencies*	140,000	0,00	140,000
Total	2,140,000	1,000,000	3,140,000**

* This amount will vary in time according to the Bank's official exchange rate and SECO's disbursement schedule and will be allocated throughout the execution period to project specific activities.

** This budget reflects the first two donations to be received under the facility. The facility is open to additional contributions from external donors up to an aggregate amount of US\$15 million.

⁴⁹ Only in the case of IDB Lab operations, contingent recovery clauses on technical cooperation projects and investment grants will be offered to organizations with a clear revenue-generating model that provide highly innovative/disruptive solutions in proof-of-concept stages and with still-uncertain market uptake. In those cases, there should be a reasonable expectation of success as indicated by prior tests or market studies and the solution must be part of the organization's core business in order to ensure alignment of interests.

- 3.4 **Additional Resources:** The facility will seek to mobilize parallel, co-financing and co-funding resources from several sources. For Component 2 and 3, IDB Lab will mobilize co-funding resources from the facility RG-O1690 (which, though approved separately, complements the activities, and shares the same scope of this facility).
- 3.5 It is worth mentioning that INE/WSA is and will also contribute to the objective of this facility through parallel, independent but complementary TCs, such as the [ATN/OC-18612-RG](#), which includes activities to strengthen the demand, to facilitate intelligence and coordination between demand and supply for innovation and to produce and disseminate knowledge products stemming also from this facility; and the [ATN/CF-17061-RG](#), co-financed by the Government of Israel, which has been financing innovative WSS pilots throughout the region. It is expected that the blending of resources from the facility will accelerate the development and piloting of new business models, tools, and methodologies to assist public and private sector clients in planning and deploying the innovation agenda in a sustainable manner.
- 3.6 The facility is open to additional contributions from external donors in the form of PSG up to the aggregate amount of US\$15 million. The additional resources will be distributed throughout the existing components on an on-demand basis, to strengthen the demand for innovative solutions, boost the supply for sectoral innovation, stimulate partnerships within the ecosystem and/or promote a new culture and an enabling environment towards innovation. While the facility is designed to allow for updates of the Result Matrix in case additional funds are received, the objectives as well as the Results Matrix's existing outcomes and outputs shall be reached as presented in this document, with the current funding.
- 3.7 To the extent that a donor or donors may contribute with additional resources to support any of the project's components or any of the aforementioned subsequent projects in the form of a PSG, the Bank may establish a commitment from each donor through an administrative agreement without the requirement of preparing or approving a separate project facility proposal. Under such administrative agreement, the resources provided by the donor will be administered by the Bank and the Bank will charge and deduct a non-reimbursable administration fee of 5 percent of the contribution. The administration fee will be distributed to Bank's departments as applicable, in relation to the workload due to preparation, execution and monitoring of the operation as well as administration of the PSG Agreement.
- 3.8 To support the mobilization effort for this facility, the Board is requested to authorize the President of the Bank, or any such representative as the President may designate, to enter into administrative agreements with other donors after the approval of this facility, under the condition that the given donors accept the Bank's rules, procedures and timeframes for execution of the facility as described herein.

IV. IMPLEMENTATION ARRANGEMENTS AND MAIN RISKS

A. Implementation and execution arrangements

- 4.1 **Overall implementation arrangements:** The IDB, through its Water and Sanitation Division (INE/WSA), will be the Implementing Agency (IA) of the facility and will coordinate actions with IDB Lab (especially considering the synergies with IDB Lab's proposed facility RG-O1690) through the establishment of a technical committee, which will include technical representatives from INE/WSA and IDB Lab engaged with the innovation agenda and will report to INE/WSA Division Chief and to the IDB Lab General Manager. This committee will have the responsibility to review project proposals and will make recommendations to IDB and IDB Lab management for their eligibility and approval. IDB Lab will name a Facility Focal Point (FFP) who will coordinate with INE/WSA's team. INE/WSA will appoint a dedicated FC to oversee the day-to-day management of the facility, including internal administrative tasks against the eligibility criteria and objectives of the facility. INE/WSA and IDB Lab specialists in the beneficiaries' countries will be directly involved in supervision and coordination activities. The technical committee will regularly interact with representatives from IDB Invest, the Knowledge, Innovation and Communication Sector (KIC) and the Competitiveness, Technology, and Innovation Division (CTI), to ensure coordination with existing projects and strategically coordinate future actions.
- 4.2 **Executing agencies:** Upon the respective due diligence, legally established entities may receive and administer resources under this facility to execute projects. These executing agencies must be one of the following: (i) borrowing member countries, including national and sub-national institutions with legal capacity to enter into legal agreements with the Bank; (ii) regional and sub-regional agencies established in the same countries; (iii) international or regional cooperation agencies; (iv) private companies eligible to receive non-reimbursable and reimbursable financing from the Bank; or (v) not-for-profit institutions, including civil society organizations and associations. As mentioned below, INE/WSA may also act as execution agency in accordance with IDB's policies and the project's Implementation Arrangements and Budget. In any case, coordination with the institutions responsible for WSS service provision will be sought.
- 4.3 **Administration and execution arrangements:** INE/WSA, in coordination with IDB Lab, will lead the preparation, execution and supervision of individual operations to finance components 1 and 4. Individual operations will be processed and approved following IDB policies and procedures applicable to technical cooperation and investment grant operations, as the case may be (documents GN-2470-2; GN-2629-1; GN-2752-4; OP-219-3). Depending on the scope of individual projects, INE/WSA or IDB Lab may lead the administration of projects co-funded under components 2 and 3 in coordination with each other. For those projects administered by the IDB Lab, IDB Lab's policies and procedures will apply for the preparation, approval, and execution of such projects.
- 4.4 An OM will be developed by INE/WSA with IDB Lab to systematize the detailed implementation arrangements of the facility, including the role of the executing agencies.

- 4.5 **Execution period:** The life cycle of the facility is up to four years (48 months) after the facility is officially approved by the IDB Board. The facility may be extended in coordination with IDB Lab following IDB policies and procedures.

B. Summary of arrangements to monitor results

- 4.6 **Monitoring:** INE/WSA will monitor the implementation and advance of the facility in coordination with IDB Lab, through the technical committee and according to the results matrix. The FC will liaise with projects team leaders to obtain the information necessary to track projects, verify the inclusion of solutions to sectoral gender and diversity challenges, verify the portfolio's sustainable impact, monitor the expected results, support problem solving and prepare portfolio management reviews and reporting documents. The FC will also be responsible for managing the donors' accountability and reporting requirements as agreed in each administrative agreement with the donors. Reporting, monitoring and evaluation will comply with IDB and the donors' requirements, and it will apply to all projects approved under the facility. Reporting for projects will follow the same rules that apply to other non-reimbursable and contingent recovery TC and IGR, including: (i) monitoring of progress; and (ii) evaluation of performance and achievement of targets. As such, reporting will encompass: (i) project execution plans; (ii) procurement plans; (iii) annual operations plans, including the financial plan and risk mitigation action plan; (iv) supervision plans for the evaluation of the program's performance and verification of targets set in the facility's results matrix; (v) semi-annual progress reports, which report on the financial progress, technical advances, results achieved and key challenges; (vi) annual co-financing reports; (vii) annual external audits; (viii) project completion reports; and (ix) midterm and terminal/final evaluations. As stated, when under the IDB Lab leadership, approved projects under Components 2 and 3 will adhere to the IDB Lab's financial management and operational guidelines (disbursement by results) which include semester progress reports, continuous monitoring of outputs and outcomes achieved, and knowledge management requirements. If at the end of the execution period the facility closes with a positive uncommitted and unspent balance, the IDB team will be responsible for informing ORP/GCM to transfer the unspent balance as agreed to by the donor and the Bank pursuant the terms of the PSG AA.
- 4.7 **Evaluation:** An overall midterm and final evaluation of all projects financed and co-funded by the facility will be contracted by the IDB through an independent third party, which will incorporate inputs from monitoring reports conducted at the project level. Each project will define its own evaluation arrangements in accordance with the evaluation arrangements established in this facility document.
- 4.8 **Communication with donors:** As the IA of the facility, the IDB through its FC and technical committee will be responsible for formal communications with, and submission of reports to the donors.
- 4.9 **Procurement of Goods and Services and Financial Management.** For projects executed by a third party, the contracting of consulting services and the procurement of goods and related services financed with the facility's resources will follow the Bank's procurement policies and procedures established in IDB's procurement "Policies for the Selection and Contracting of Consultants financed by the Bank" (GN-2350-15), and "Policies for the Procurement of Goods

and Works (GN-2349-15). Financial management of the facility's resources will follow the Bank's Financial Management Guidelines (OP-273-12). Projects executed by the IDB will follow policy AM-650 for Individual consultants, policy GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature and policy GN-2303-28 for logistics and other related services.

C. Environmental and social safeguard risks

- 4.10 In accordance with the guidelines of the Policy Environment and Safeguards Compliance Policy (OP-703) the proposed operation was classified as category "C" (see [SPF](#) and [SSF](#)). Individual projects are expected to yield positive impacts as they will advance efficiency and effectiveness in the sector. Each individual project under this facility will be reviewed by ESG and classified in accordance with the guidelines of the Policy Environment and Safeguards Compliance Policy (OP-703) or the Environmental and Social Performance Framework.

D. Fiduciary and other risks

- 4.11 The following medium-high risks have been identified: (i) delays in project implementation due to the COVID-19 pandemic, especially under current mobility restrictions. To mitigate this risk, virtual meetings will be promoted and facilitated; feedback from beneficiaries will be constantly required to verify the need for changes and actions in the implementation phase; projects' activities less likely to require physical exposure to social contacts will be prioritized during social distancing periods; and projects' activities that result in social contacting will follow IDB's guidance on health safety and will receive the necessary precautions. In addition, INE/WSA will keep close communication with IDB departments, governments and the private sector for measures that may be put in place to mitigate the impact of the health crisis on the programming and implementation of this facility; (ii) service providers do not scale up piloted solutions because of a lack of resources. To mitigate this risk, the team will ensure constant communication with IDB specialists to make sure that innovative solutions are included in loans and parallel operations; and (iii) resistance of the WSS sector to open their business models for open innovation rounds. To mitigate this risk, the team will ensure constant communication with IDB specialists to make sure that innovative solutions are included in loans and parallel operations.

**SOURCE OF INNOVATION: A FACILITY FOR FOSTERING INNOVATION IN THE WATER, SANITATION
AND SOLID WASTE SECTOR IN LATIN AMERICA AND THE CARIBBEAN**

**RG-O1693
RG-T3881¹**

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the referenced operation will be financed through:

Funding Source	Fund Code	Currency	Amount Up to
Cofinancing Special Grants	COF	USD	3,140,000.00

For operations financed by funds where the Inter-American Development Bank (IDB) does not control liquidity, the availability of resources is contingent upon the request and the receipt of the resources from the donors. Additionally, in case of operations financed by funds that require a post-approval agreement with the donor, the availability of resources is contingent upon the signature of the agreement between the Donor and the IDB. (i.e.: Project Specific Grants (PSG), Financial Intermediary Funds (FIF), and single donor trust funds).

Certified by:

Original Signed

10/08/2021

Maria Fernanda García
Chief

Date

Grants and Co-Financing Management Unit
ORP/GCM

¹ RG-T3881 is the Administrative Operation (ADM) of the Facility RG-O1693. This operation will be financed with the resources of the facility for US\$387,000, which approval is being processed simultaneously in the Project Document.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Regional. Nonreimbursable Financing. RG-O1693 / RG-T3881. Source of Innovation: A Facility for Fostering Innovation in the Water, Sanitation and Solid Waste Sector in Latin America and the Caribbean

The Board of Executive Directors

RESOLVES:

1. To establish the Facility for Fostering Innovation in the Water, Sanitation and Solid Waste Sector in Latin America and the Caribbean (the “Facility”) for the purposes of financing individual nonreimbursable investment and technical cooperation operations in accordance with the provisions set forth in document AT-_____.
2. That up to the sum of \$15,000,000 chargeable to the contributions that may be provided by donors and administered by the Inter-American Development Bank (the “Bank”) in accordance with the agreements referred to in paragraphs 3 and 5 of the Resolution may be used for the purposes indicated in paragraph 1 above.
3. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreement or agreements as may be necessary with:
 - (i) the Government of Switzerland, through the State Secretariat for Economic Affairs up to the sum of US\$2,140,000; and
 - (ii) the FEMSA Foundation up to the sum of up to US\$1,000,000.
4. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such other agreement or agreements as may be necessary for purposes of implementing the Facility.
5. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into other agreement or agreements as may be necessary to receive and administer resources up to the sum indicated in paragraph 2 above and for the purposes described in paragraph 1 of this Resolution, and to adopt any other measures as may be pertinent for the execution of said agreement or agreements.
6. That the President of the Bank, or such representative as he shall designate, is authorized to distribute among the relevant departments the administrative fee received by the Bank to fulfill the special requirements or services of the Facility.

(Adopted on ____ 20__)