

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Scaling Innovative Financing for the Water and Sanitation Sector
▪ TC Number:	RG-T3806
▪ Team Leader/Members:	GARCIA MERINO, LUCIO JAVIER (INE/WSA) Team Leader; MACHADO, KLEBER B. (INE/WSA) Alternate Team Leader; PAEZ RUBIO, TANIA (INE/WSA); BEDOYA DEL OLMO, CELIA (INE/WSA); VARGAS LOPEZ, LAURA MARCELA (INE/WSA); PEREIRA, TIAGO PENA (INE/WSA); MENDEZ TORRICO, E. GUSTAVO (INE/WSA); SASAKI, KEISUKE (INE/WSA); BASANI, MARCELLO (INE/WSA); LOPEZ, LILIANA M. (INE/WSA); ALMEIDA OLEAS, NATALIA (LEG/SGO); VILA SAINT-ETIENNE, SARA (LEG/SGO); PEREZ MENENDEZ, ANGEL RAMON (IFD/CMF); ALLENDE LOPEZ, MARCOS (ITE/IPS)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	18 Feb 2021
▪ Beneficiary:	Peru and Brazil
▪ Executing Agency:	WATER.ORG
▪ IDB funding requested:	US\$600,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	36 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	INE/WSA - Water & Sanitation
▪ Unit of Disbursement Responsibility:	INE/WSA - Water & Sanitation
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Social inclusion and equality; Productivity and innovation; Institutional capacity and rule of law; Environmental sustainability; Gender equality

II. Objective and Justification

- 2.1 The objective of the TC is to create and expand access to improved water and/or sanitation facilities and services among low-income communities with a three-pronged approach by (i) scaling access to WaterCredit by partnering with financial institutions; (ii) providing technical assistance and capacity building to water utilities to provide financial mechanisms to users for expanding water access, and; (iii) promoting the development of blockchain technology into the MFIs systems to better capture cost savings and functionality , to create an economic identity for users , and to digitalize the interaction between users and MFIs.
- 2.2 While most investments in the water and sanitation sector are financed by the public sector, investment levels have been insufficient to achieve universal access. It is estimated that there is a financial gap to achieve the water and sanitation related SDGs in the region of approximately US\$15 billion per year. To increase investment levels, there must be private sector and market-based solutions to complement and accelerate government investment. In addition to the investments in infrastructure,

families usually need to cover the costs of connecting to the networks and any associated household improvements with their own resources, and sometimes they require small loans to finance these costs. These small loans are only offered by MFI using traditional models with high interest rates. There are new models like WaterCredit and new technologies such as blockchain that can bring a decrease in interest rates in microcredits and help those most vulnerable to develop a financial history, ensuring financial inclusion. Water.org, a nonprofit organization, has been active in this field, using microfinance to offer a portfolio of solutions that break down the financial barriers between people living in poverty and access to safe water and sanitation. The WaterCredit model is the first to put microfinance tools to work in the water and sanitation sector. WaterCredit brings small loans to those who need access to affordable financing and expert resources to make household water and toilet solutions a reality. It is a pay-it-forward system that makes it possible to help more people in ways that will last. In 2019, the IDB developed a pilot project with blockchain technology in Peru, in alliance with Water.org, where a private blockchain application was implemented in two microfinance entities to study the benefits of the technology in microcredit processes in the water and sanitation sector and test its use with real borrowers.

III. Description of Activities and Outputs

- 3.1 **Component I: Scaling-up WaterCredit in Brazil.** To expand WaterCredit, Water.org will work with Microfinance Institutions (MFI) in Brazil to extend loans to clients for water & sanitation solutions. Water.org will support the MFIs with technical assistance to design, pilot, and scale their micro-loan programs; host staff trainings & capacity development; develop market assessment & program evaluations; and offer on- going technical and coordination support to ensure the successful implementation of their WaterCredit lending programs.
- 3.2 **Component II: Leverage Blockchain Platform in Peru and Brazil.** To familiarize & capacitate MFIs & utility partners with the blockchain technology and explore with them how they could use the technology, especially around cost savings and digitalization of processes. . To do so, the project will work with at least three MFIs which provide microcredits in the water and sanitation sector in both countries to promote the integration of blockchain technology into a blockchain platform to better capture costs and functionality for microcredits
- 3.3 **Component III: Evaluation, Auditing and Knowledge Generation.** The TC evaluation, auditing, knowledge generation, and dissemination activities will be financed under this category.

IV. Budget

Indicative Budget (in US\$)

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Scaling-up WaterCredit in Brazil	\$334,710.00	\$0.00	\$334,710.00
Leverage Blockchain Platform in Peru and Brazil	\$215,290.00	\$0.00	\$215,290.00
Evaluation, Auditing and Knowledge Generation	\$50,000.00	\$0.00	\$50,000.00
Total	\$600,000.00	\$0.00	\$600,000.00

V. Executing Agency and Execution Structure

- 5.1 Water.org will be the executing agency. Water.org is a global Nonprofit Organization working to bring water and sanitation to the world by helping people get access to safe

water and sanitation through affordable financing, such as small loans, and to empower people in need with these life-changing resources – giving women hope, children health and families a bright future. Water.org has been selected to be the executing agency of this program based on their vast experience in microfinance and water globally and in LAC. Water.org has an office in Peru and is currently exploring registration options in Brazil. Water.org has partnered with several MFIs in these countries. In Brazil, Water.org has three active MFIs partners. In Peru, Water.org has partnered with 11MFI.

- 5.2 Water.org will be responsible for the technical and fiduciary execution, and the coordination of all the activities of the TC, for which they may hire independent consultants previously agreed upon with the Bank. Water.org will be responsible for managing the Bank's financing resources, accounting for the use of such resources, and executing procurement in accordance with the provisions of Appendices 4 of procurement policies GN-2349-15 and GN-2350-15. The procurement plan for the project covers the 36 months of program execution.

VI. Project Risks and Issues

- 6.1 Main risks identified are the lack of engagement of Microfinance Institutions (MFIs), which is reduced by the previous work done by both the Bank and Water.org in the countries and the network developed through previous activities. Other risks may include potential delays and instability during the changes in national and subnational governments in the following elections and potential delays due to the Covid crisis. These risks will be mitigated prioritizing the projects with government officials in early stages and developing most of these activities in a virtual mode.

VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is "undefined".