

## Guidelines



### Objective

With this second challenge, the Inter-American Development Bank (IDB), through its innovation laboratory, IDB Lab, in coordination with the IDB Water and Sanitation Division and in partnership with the members of Source of Innovation<sup>1</sup> seeks to reaffirm its commitment to supporting innovative solutions from the private sector that can be adopted by service providers in Latin America and the Caribbean to assure safely managed drinking water and the resilience of water systems.

This challenge, as the previous one, will focus on strengthening the supply of sectoral innovation from the region identifying and supporting innovative solutions and products developed by the private sector, through specific projects.

<sup>1</sup> Source of Innovation is an alliance of the IDB Group with external partners to promote the development and adoption of innovative solutions in the water, sanitation, and solid waste sectors to achieve smart, inclusive, and sustainable services, with a focus on service providers in Latin America and the Caribbean. Source of Innovation is funded by the Government of Switzerland, through its Secretariat of State for Economic Affairs (SECO), the FEMSA Foundation, the Republic of Korea, through its Ministry of the Environment, The Coca-Cola Foundation, the Government of Spain, through its Ministry of Economy, Trade and Business (MINECO), and the Government of Israel, through its Ministry of Finance. The alliance is also complemented by direct contributions from IDB Lab and the Water and Sanitation Division of the IDB, and coordinates directly with the Aquafund, the fund created with IDB capital and to which a wide range of public and private sector partners contribute.

### Submission for Applications & Announcement of Selected Applications

Proposals will be received **from March 22nd, 2024, to May 31st, 2024** (midnight ET).

An official announcement of selected applications will happen approximately 90 days after the closing.<sup>2</sup>

### Awards

IDB Lab contingent recovery financing in the order of US\$300,000, to a maximum of US\$500,000 (under the terms and conditions set forth in Section IV), and participation in IDB Group regional networking events. More details about the financial instrument (contingent recovery grants) can be found in Section VI.

### Geographical Scope

**The target countries will be the 26 borrowing member countries of the IDB:** Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.

If your entity belongs to the private sector and is legally registered in one of the 26 target countries where the project will be implemented, you can apply to the Challenge.

If your entity is legally registered in one of the 48 members countries of the IDB Group, other than one of the 26 target countries where the project will be implemented, you may apply only in partnership with an entity registered and located in one of the 26 target countries where the project will be implemented.

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<sup>2</sup> Check the challenge timeline for more details.

## 01 Context

According to the latest statistics, only 75% of the population in Latin America and the Caribbean (LAC) had access to safely managed drinking water services in 2020 and only 33% to safely managed sanitation services.<sup>3</sup> Moreover, the quality of these services presents important challenges. For example, 60% of systems fail to offer continuous service and non-revenue water is around 45% and 50%.<sup>4</sup>

The sector must adopt and incorporate innovative solutions and models that allow accelerating access to safe drinking water, sanitation, and solid waste services. The needs in the water and sanitation and hygiene (WASH) sector are becoming increasingly demanding, which means utilities need to increase efficiency, do more with less, increase transparency and creditworthiness, and ensure the sustainability of services. In a context of climate change and water insecurity, aspects such as energy efficiency and non-revenue water become key to ensure services to everyone during draughts, which are becoming more common in the region as shown by the crises of the megacity of São Paulo or the water shortages in Chile, Bolivia, and Peru, which have contributed to social unrest in these countries.

In particular, the technological digital transformation of systems and processes can result in a reduction in operating expenses of up to 25% for utilities<sup>5</sup> and thus create new economic opportunities to increase access and quality to safe water and sanitation for the population in LAC<sup>6</sup> and the modernization of existing sectoral infrastructure<sup>7</sup>. It is expected that 80% and 50% of water utilities in developed and developing countries, respectively, will have implemented a digital transition by 2025<sup>8</sup> covering three major aspects: (i) infrastructure management and the operation of service provision; (ii) customer management, and (iii) personnel management including training.

This potential demand for the transformation of the water and sanitation sector is not answered today with an offer of technology providers from the same region. Not many innovative entrepreneurs are interested in the sector and those who offer systems, services, and technological products for the water and sanitation sector require a systematic and expensive

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<sup>3</sup> Progress on Drinking Water, Sanitation and Hygiene in Latin America and the Caribbean 2000-2020: 5 years into the SDGs. New York: United Nations Children's Fund (UNICEF) and World Health Organization (WHO), 2022.

<sup>4</sup> Water and Sanitation Sector Framework Document. IDB, 2021.

<sup>5</sup> The Digital Utility: New challenges, capabilities, and opportunities. McKinsey & Company, 2018.

<sup>6</sup> Water and sanitation: Innovations you didn't know were from Latin America and the Caribbean. Mastrangelo, IDB. 2018; Innovation in Water, Sanitation and Solid Waste: Diagnosis, Perspectives and Opportunities for Latin America and the Caribbean, Minatta, A. and Basani, M., Technical Note No. IDB-TN-01974, 2020.

<sup>7</sup> How Digital Technology Can Be the Fundamental Agent of Change in the Modernization of Global Water Infrastructure. Karmous-Edwards, and Sami, 2018.

<sup>8</sup> *Smart Cities: Digital Solutions for a More Livable Future*. Woetzel J., et al. McKinsey Global Institute, 2018.

effort to be able to present the solutions to the different actors and decision-makers in the sector. The few entities focused on this connection work concentrate on solutions from outside our region.

## 02 Objective of the Challenge

The Inter-American Development Bank ([IDB](#)), through its innovation laboratory, [IDB Lab](#), in coordination with the IDB Water and Sanitation Division and in partnership with the members of Source of Innovation seeks to advance solutions and innovations from the private sector that can be adopted by service providers in Latin America and the Caribbean to assure safely managed drinking water and the resilience of water systems.

This challenge will focus on strengthening the supply of sectoral innovation from the region by (i) identifying and supporting innovative solutions and products developed by the private sector and (ii) promoting the development of the innovation ecosystem with special attention on those actors focusing on the water sector.

IDB Lab is looking to support private sector entities: startups, Small and Medium Enterprises (SMEs), and Social Businesses (i.e., B corporations), with business models of “ready to implement”.<sup>9</sup> The entity must propose a specific project that supports the strengthening of the supply of innovation for the sector in any of the following areas:

- Energy efficiency for the water and sanitation sector
- Non-revenue water
- Water quality
- Management of systems related to water and sanitation services (incl. services management, information management, and interaction with users)
- Environmental sustainability and resilience of services (incl. water availability for drinking water, quality of water bodies, planning, etc.)

The proposed projects must demonstrate that they contribute to the following indicators:

- A. Reduce water loss (non-revenue water).
- B. Improve water quality.
- C. Increase sustainability (operational, environmental, or financial) of water and sanitation services.
- D. Increase resilience (operational, environmental, or financial) of water and sanitation services.

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<sup>9</sup> A ready to implement solution is an innovation that can demonstrate successful deployment of a prototype/Minimum Viable Product (MVP).

- E. Reduce volumes of untreated wastewater.
- F. Reduce pollution of water sources.
- G. GHG emissions avoided (this indicator cannot go alone and requires contribution to another indicator from this list).

Funding will be exclusively allocated to projects aimed at enhancing water and sanitation services that can be adopted by service providers. While various entities (startups, SMEs) might be involved in developing water-oriented solutions for sectors like agriculture and industry, our focus is on water and sanitation service improvements. Only entities with solutions and projects focused on water and sanitation service providers (such as public or private water utilities, municipalities, regulatory bodies, and national water and sanitation service programs) or those aiming to showcase verifiable advancements, technological innovations, or business models tailored for these service providers will qualify. Projects with primary objectives outside of this domain will not receive financing.

## 03 Who can present applications?

Legally established entities from the private sector such as startups, Small and Medium Enterprises (SMEs), Social Business (i.e.: B corporations) eligible to receive financing from the Bank.

If your entity is legally registered in one of the 26 target countries where the project will be implemented, you can apply to the Challenge.

If your entity is legally registered in one of the 48 members countries of the IDB Group, other than one of the 26 target countries where the project will be implemented, you may apply only in partnership with an organization registered and located in one of the 26 target countries where the project will be implemented.

## 04 Awards

**Financing:** IDB Lab may consider the applicants whose proposals are selected to receive financing to implement the proposed project in one or various of the 26 target countries.

**IDB Lab Innovators Network:** Selected applicants will be included among IDB Lab's network of global innovators working in LAC to exchange knowledge, experiences, and best practices, and may have opportunities to participate in networking events organized by the IDB Group and its partners.

## 05 Evaluation Criteria

Applications will be evaluated according to the following criteria:

- **Adoption Potential (35%):** Evaluates the likelihood of solution adoption and scalability by service entities. Priority will be given to entities that have successfully collaborated with water and sanitation providers in Latin America and the Caribbean or have evidence of interest, such as a letter of intent or contract.
- **Impact (15%):** Evaluates how the proposal will impact any of the areas indicated in [Section 02](#), including projected impacts over defined scales using KPIs.
- **Innovative approach (15%):** present a solution that: (i) is innovative at a global, regional, or country level; and (ii) employs fourth industrial revolution technologies. Innovation can be a new technology, a new application of technology, a new business model, a financial model or a new process or methodology for solving a current problem, and the team identifies its competitive advantages.
- **Viability of the model (35%):** Evaluates (i) the repayment capacity based on an already clear and viable revenue generation model or the feasibility to attain it by the project's end and (ii) potential risks that may affect successful implementation and mitigating actions to address these risks.

With equal conditions and merit with respect to the rest of the established criteria, proposals that prioritize vulnerable<sup>10</sup> or poor<sup>11</sup> populations or incorporate specific gender and diversity actions and goals to avoid reinforcing existing gender inequalities or to grant equal opportunities to men and women to participate in and benefit will be given priority.

## 06 Types of Financing Available

Applicants can present their applications and apply for contingent recovery financing (that means that the financing is reimbursable upon meeting certain requirements) from US\$300,000, to a maximum of US\$500,000 each. Resources will be channeled through individual projects to be approved by IDB Lab. All individual projects will have to comply with the eligibility criteria described in [Section 02](#).

Please note that:

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<sup>10</sup> Vulnerable population: Income of \$4 to \$10 dollars a day per capita at Purchasing Power Parity (Source: Economic Mobility and the Rise of the Latin American Middle Class. World Bank. 2013).

<sup>11</sup> Poor Population: below national poverty line.

- A. Applicants should be able to contribute at least 50% in counterpart funds for project budget (IDB 50% + Applicant 50% = 100% Total project cost). At least 50% of the counterpart should be cash.
- B. After a due diligence process, IDB Lab may propose a different financial instrument from the one offered through this challenge.



<b>Financial Instrument</b>	<b>Contingent Recovery Financing<sup>12</sup></b>
<b>Type of applicant</b>	<p>For profit organizations :</p> <ul style="list-style-type: none"> <li>• Startups</li> <li>• Small and Medium Enterprises (SMEs)</li> <li>• Social Business (i.e.: B corporations)</li> </ul>
<b>Type of models/solutions</b>	<p>The projects with this type of financing are focused on piloting innovative solutions and income-generating business models that could be scaled up or replicated, either during project implementation or in a subsequent stage (potentially with the IDB Lab investment products and other financial support from the IDB Group).</p> <p>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 to ensure alignment of interests.</p>
<b>Use of financial resources</b>	<p>Revenue-generating financing such as acquisition or development of hardware, software, equipment, and other investments. Acquisition of critical human and/or material resources to develop, test, or implement the solution proposed.</p> <p>IDB Lab financing may also be used for advisory services and technical assistance to design and implement solutions (individuals, firms, or specialized agencies), specialized consulting services, training, events and workshops, production, or reproduction of material (assessments, guides, manuals, infographics, etc.), travel expenses, communication materials (videos, case studies, etc.) and others needed to achieve the outcome of the project.</p> <p>IDB Lab financing could not cover overhead costs such as the salary of existing staff or office expenses, and there are some restrictions on financing administrative costs.</p> <p>Funding cannot be used for the purchase of land, or real estate. Funding may cover investments in equipment or infrastructure.</p>
<b>Business stage/ Profitability</b>	Medium High by uncertain earning potential
<b>Financing (range)</b>	US\$300,000 – US\$500,000

<sup>12</sup> Reimbursement conditions to be agreed during due diligence.



<b>Counterpart requirement (funds to be provided by Applicant)</b>	<p>Counterpart funds to be provided by the applicant: 50% or higher percentage of the total project amount, half in cash and half in kind.</p> <p>Total Project amount = IDB 50% + Counterpart of Applicant (50% or higher percentage (25% cash + 25% in kind)).</p>
<b>Indicative timeframe</b>	<p>Upon eligibility, design, and final approval by IDB Lab: 3-6 months.</p> <p>Implementation period: between 12 and 30 months from signing the legal agreement. The business model supported with the funding must achieve its objectives during this period.</p> <p>Repayment term: terms will be negotiated on a case-by-case basis, but in general will never exceed 5 years from the date of completion of implementation.</p>
<b>Required Documents</b>	<ul style="list-style-type: none"> <li>• Copies of applicant's latest annual financial statements of the last two years, of which the last one should be audited (or follow the required practice in Applicants country).</li> <li>• Written evidence of counterpart resources to implement the model (similar to a letter of interest or commitment)</li> <li>• Registration (this must be a legal document establishing the applicant as registered or authorized by the government to do business. Organizations with temporary authorizations/licenses to operate in the country where the project will be implemented will not be accepted. <ul style="list-style-type: none"> <li>i. Applicant registered in one of the 26 target countries where the project will be implemented: copy of the applicant's proof of legal constitution and incorporation under the laws of the target country where the project will be implemented.</li> <li>ii. If applicant is registered in one of the 48 IDB member countries other than the target country where the project will be implemented: copy of applicant's proof of legal constitution incorporation under the laws of the IDB member countries, plus a copy of a collaboration/joint venture agreement with an Applicant organization registered in the target country where the project will be implemented.</li> </ul> </li> <li>• Copy of the applicant's bylaws and other documents on its corporate governance.</li> </ul>
<b>Additional conditions</b>	<p>The Applicant will be responsible to repay partially or completely the funded amount if the business moves forward successfully according to the conditions and the schedule agreed in the due diligence process.</p>

## 07 Application process

### 1. Complete online application:

- a. Submit application through the [online platform](#) within the timeframe specified in [Section 09](#).
- b. Applications will be selected if they fully comply with the evaluation criteria and requirements described in [Section 02 and 03](#).

### 2. Upload documents:

- a. Written evidence of counterpart resources.
- b. Written proof of legal constitution or incorporation and bylaws.
- c. Copies of Applicant's latest annual financial statements of the last two years, of which the last one should be audited (or follow the required practice in Applicant's country).
- d. Past collaboration with Water Utilities or Letter of Interest of some Water Utilities to collaborate with this project.

## 08 Selection Process

### Phase I

After completing the application via the [online platform](#), an IDB Technical team will review, analyze, and pre-select applications.

### Phase II

Due diligence visits or interviews will be conducted to analyze the ability of the model of the pre-selected applications. Subject to the outcome of the due diligence, pre-selected applications will proceed to Phase III.

### Phase III

IDB Lab will select applications according to the evaluation criteria established in [Section 05](#). Selected applications will be announced as per the established timeline. Once the best way to implement the model has been assessed, IDB Lab will provide support to the selected Applicant(s) to initiate the design of the project (which includes developing a project plan and other documents necessary to request official internal IDB/IDB Lab approval). This process may last up to six months, depending on the maturity of the proposed model and the implementing capacity of the selected Applicants.

Final approval is subject to internal IDB/IDB Lab procedures with the understanding that for the project to be selected to receive financing, it must have been approved by all those directly involved in IDB/IDB Lab's approval process. Likewise, a legal agreement must be signed which sets forth how the financing and the counterpart resources will be used to implement the model.

Selected applicants will receive funding once:

1. The proposed business model or solution has been duly analyzed and evidence obtained of its viability.
2. The applicant's experience in the sector, capacity to manage financial resources and project execution experience have been evaluated.
3. Availability of or ability to mobilize counterpart resources has been demonstrated; and,
4. A legal written agreement to use the funding and counterpart resources towards the implementation of the selected model/project has been signed by both parties (IDB/IDB Lab and applicant selected through the analysis process).

## 09 Challenge Timeline

\*Dates are approximated and subject to change:

**Challenge launch:** March 22, 2024.

**Application Deadline:** May 31, 2024 (midnight ET)

**Reviewed by IDB Group:** starting June 1, 2024.

**Announcement of selected applications:** approximately 90 days after closing of the application period.

SEND YOUR QUESTIONS BY E-MAIL TO: [fuentedeinnovacion@iadb.org](mailto:fuentedeinnovacion@iadb.org)

## 10 Disclaimers and Reservation of Rights

1. The IDB reserves the right to eliminate applicants at any part of the process and this decision shall be final and binding. The IDB may decide to not select an applicant if the submission did not meet the requirements or did not have sufficient quality.
2. The IDB may search for publicly available information regarding applicants and may seek to verify details referenced in the application. The IDB reserves the right to cancel the sourcing campaign at any time.
3. All decisions of the IDB are final and binding, with no process to appeal. The information delivered internally by the IDB/IDB Lab will not be for public use and will not be sent to

each participant, as described in the IDB Group Access to Information Policy, available at: <https://www.iadb.org/en/who-we-are/access-information-ati-about-ati>.

4. Applicants that submit content that is offensive, illegal, etc. and those that disparage the IDB, or other sponsors will be eliminated.
5. IDB will not consider applicants who not eligible to participate in IDB projects or contracts in accordance with its integrity policies and sanctions protocol.
6. Applicants must certify that the submission is original and that they are not infringing any copyright or other intellectual property. Any such infraction may result in disqualification. Applicants are responsible for all content, such as photos, images, videos, graphics, written content, audio files, information or data uploaded or submitted.
7. The IDB will use the information delivered in each application for the purpose of analysis and deliberation, all confidential information delivered to the IDB will receive the treatment provided in the IDB Group Access to Information Policy available at: <https://www.iadb.org/en/who-we-are/access-information-ati-about-ati>.
8. The IDB does not provide individual feedback or comments on applications.
9. In order to receive IDB funding, selected Applicants must sign an agreement with the IDB which includes relevant commitments, representations, and indemnity obligations by the applicant.
10. IDB reserves the right to disseminate and share the identity of the applicants and any other information deemed relevant.
11. By submitting an application each applicant consents and approves that IDB may share information of the application within the IDB Group and/or with strategic partners under non-disclosure agreements to look for co-financers.
12. These terms and conditions may be updated at any time and will be made available to all applicants online.

## 11 Applicable law and arbitration

All matters, issues or controversies in this challenge shall be governed by the laws of the District of Columbia. Nothing in these guidelines may restrict, limit, or impede any right, privilege or immunity granted to the IDB or IDB staff by virtue of any treaty or national or international law.

If any controversy related to the contest arises that cannot be resolved by means of an amicable agreement, then, after one of the parties gives notice of the difference or controversy to the other, it will be submitted to arbitration and final resolution by a single referee. The arbitration will be administered by the American Arbitration Association, in accordance with the Commercial

Arbitration Rules of the American Arbitration Association. The place of arbitration proceedings shall be Washington, D.C. The language to be used in the arbitration proceedings will be Spanish. The arbitrator will have legal advice if desired, or if requested by one of the parties. The expenses of any arbitration procedure will be borne by the applicant and the IDB in equal parts.