

## 2 The hard work of progressive public lending

### FONPLATA and financing the Sustainable Development Goals in Buenos Aires

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In 2015, all 191 United Nations Member States signed onto the 17 United Nations Sustainable Development Goals (SDGs), which outline climate-related socio-economic measures to be achieved by 2030. SDG 6 calls for the universalization of affordable, safe and adequate water and sanitation services (WSS), both as a matter of climate policy and to fulfil the UN's declaration of water as a human right. Meeting these goals will require significant financing. One potential source is regional public development banks, which have played an important role in financing WSS in Latin America for decades (Fonseca et al. 2021).

In this chapter, we analyze an innovative loan programme between a regional public development bank, the Río de la Plata Basin Financial Development Fund (FONPLATA), and the Argentinian water operator, Agua y Saneamientos Argentinos S.A. (AySA). FONPLATA was founded in 1971 and is collectively owned and governed by the countries that border the Río de la Plata basin (Argentina, Bolivia, Brazil, Paraguay and Uruguay). AySA is a public company servicing the Buenos Aires Metropolitan Area (BAMA) in Argentina that was returned to national ownership in 2006. In 2019, FONPLATA approved a loan to finance the Water + Work and Sewage + Work (W/S+W) public works programmes that not only bring WSS to low-income households but create employment in these communities by hiring local residents who are members of cooperatives to do the construction and installation work. The FONPLATA loan is innovative because it takes a results-based approach that makes disbursements conditional on the achievement of particular targets: a specified number of water and sewage connections, the creation of jobs and achieving gender equity in employment. In this sense, unlike traditional loans, which are typically disbursed based on the completion of predetermined activities or the submission of expense reports, a results-based approach focuses on actual results. This model of lending is distinctive because it ensures that funds are only released when tangible, measurable improvements are realized, aligning financial incentives

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with project outcomes. The FONPLATA case study is also important because it has paved the way for similar forms of results-based lending for another WSS loan financed by the World Bank.

One principal question guided our analysis: what conditions led FONPLATA to provide this particular form of financing to expand access to WSS in Buenos Aires, and how were the terms of the loan set? We argue that the public water provider and the public bank had mutual interests. After the return of the water provider to public control in 2006, the Argentine government was looking for a way to expand WSS in vulnerable areas and to increase opportunities for public employment through its W/S+W programmes. In AySA's first years of operation, these programmes were financed by the company's own resources and direct transfers from the national government. A few years ago, however, AySA began to seek new sources of financing through multilateral credit organizations. The opportunity came when FONPLATA offered a loan to finance these programmes. For its part, FONPLATA saw this loan as an opportunity to further carve out a niche in the financial ecosystem: specifically, the offer of mid-sized SDG-aligned loans to member states. While it was not FONPLATA's first loan in Argentina, it was their first results-based loan in the WSS sector.

The case study features an example of effective public–public collaboration between a public bank and a public water operator (see Marois & McDonald 2022; Fonseca et al. 2021). This is the first case study of the relationship between FONPLATA and AySA of which we are aware. As such, this chapter helps to fill the gap in the literature on how to finance the SDGs in the WSS sector in pro-public ways—a literature that remains dominated by studies of public–private partnerships and private forms of financing (McDonald et al. 2021). In addition, the chapter contributes to the literature on how to incentivize and measure the performance of water operators. The FONPLATA–AySA loan features co-created performance indicators that promote non-commercialized forms of water delivery and equity (McDonald & Ruiters 2012; Marois & McDonald 2022), based on what Marois (2022a) has dubbed “metrics that matter.”

The first section outlines the development of AySA and its relationship with national government, its changing interests and priorities with respect to the expansion of WSS, and the challenges therein. The second section describes public banks in Argentina and the evolution of FONPLATA as a niche lender, which is a result of its own organizational evolution and changing demands of its member nations and international competitors. The third section describes FONPLATA's loan to AySA, including why and how the results-based approach based upon socio-economic indicators was developed. The fourth section examines the specific operations of the W/S+W programmes and describes the on-the-ground impact of the loan. Throughout our analysis, we rely on a qualitative methodology using primary source individual and group interviews with WSS sector officials and public development bank employees as well as secondary sources (see Appendix for list of interviews).

The fifth section describes AySA's efforts to increase the number of household connections. The conclusion highlights the main contributions of the case.

### **Water and sanitation in the Buenos Aires Metropolitan Area**

The creation of the state-owned company, AySA, took place in the complex social, political and economic context of Argentina's macroeconomic crisis in 2001. The 2001 crisis entailed the end of the peso-dollar currency peg in place since 1991 and the "pesification" of public service fees, which resulted in the immediate conversion of dollars into pesos and subsequent depreciation of this revenue. These events sparked an accelerated process of de-privatization of WSS in the country (Azpiazu et al. 2008). Provincial companies assumed the operational control of most water operators in Argentina. One exception was AySA, which was re-nationalized when the national government became its main shareholder, holding 90 per cent of its shares.

The contract signed between AySA and the national government in 2006 defined the "concession goals" and the "concession area," that is, the powers conceded to AySA to carry out WSS operations for a certain period of time and within a legally defined area. This contract replaced the concession contract of the preceding private company, Aguas Argentinas, which was in charge of the services for the period 1993–2006. AySA's initial concession area covered 17 out of 24 municipalities within the BAMA, an area that includes and surrounds the Autonomous City of Buenos Aires (the nation's capital) in two rings (see Figure 2.1).<sup>1</sup> In total, the BAMA has nearly 14 million inhabitants: 3 million live in the city and 11 million live in the remaining districts. In total, BAMA's population represents more than 30 per cent of the country's population packed into a space representing less than 1 per cent of the national territory.

This multilevel arrangement of Argentina's WSS has its origins in the 20th century when WSS were provided by the national company, National Sanitary Works (Obras Sanitarias de la Nación, OSN), which was in operation from 1912 to 1980. OSN had jurisdiction in urban centres throughout the country. After 1980, OSN faced significant financial troubles and ultimately reduced its concession area to part of the BAMA. The rest of the services were transferred to the provinces, including the province of Buenos Aires. As part of the implementation of neoliberal policies in the 1990s, the services of the metropolitan area were privatized. The concession area of OSN was maintained in the concession contract of the private company, Aguas Argentinas, which operated from 1993 until its cancellation in 2006.

Since its inception, AySA has counted on the financial support of the national government, which has helped it keep tariffs low. Tariffs had increased significantly under the private company Aguas Argentinas (Azpiazu & Castro 2012). After the return of WSS to public control, the government—then under control of the Kirchner administrations (2003–15)—froze AySA's tariffs. This move was meant to bolster the real wages of the population, as

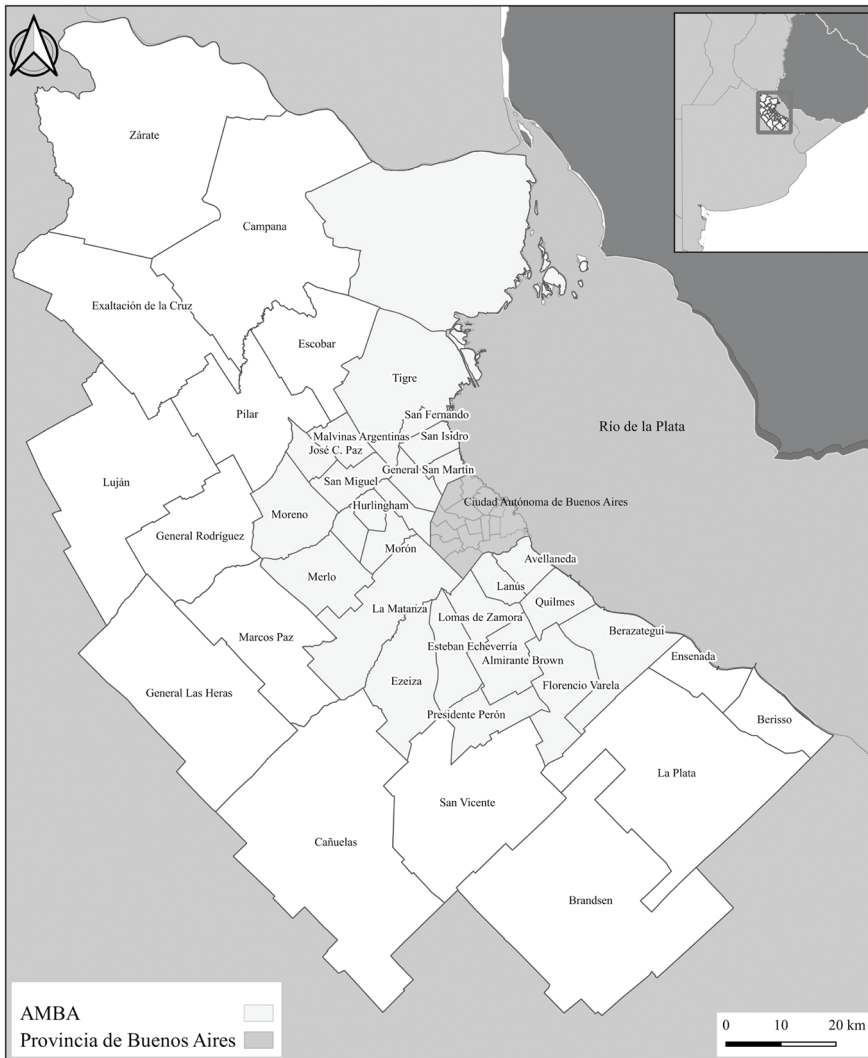


Figure 2.1 Buenos Aires Metropolitan Area.

Source: Authors' elaboration.

the government considered service fees to be an inflation control measure, that is, an element of monetary policy. In 2015, a neoliberal-oriented administration took office under President Mauricio Macri (Morresi & Vicente 2019). Tariffs were again adjusted towards cost recovery, and the government cut its subsidies to AySA. Tariffs went from covering 40 per cent of its

operating costs in 2015 to 90 per cent by 2019. In the context of growing inflation, the Peronist-allied administration that came to office in 2019 froze tariffs until 2022, compensating AySA with transfers.

AySA's average monthly billing for water and sanitation is lower than most of the water operators in Argentina (ADERASA 2021). Only about 25 per cent of AySA's users pay fees based on usage. The majority of residential households within the concession area do not have metering, which means that tariffs are based on a formula that takes into account the surface area and location of the property rather than individual consumption (ADERASA 2021). According to the 2010 census, within the concession area, AySA's network coverage reached 76 per cent of households for drinking water and 57 per cent for sewage (INDEC 2010). Service coverage, however, is uneven. Residents in the Autonomous City of Buenos Aires enjoy nearly 100 per cent coverage, while service coverage for water and sanitation in more remote municipalities does not exceed 20 per cent. For example, only 15 per cent of households in Ezeiza in the south have access to drinking water and 18 per cent to sewage. Barely 17 per cent of households in José C. Paz in the north-west (incorporated in 2017) have access drinking water and only 6 per cent to sewerage (INDEC 2010).

In order to address existing service deficits within their concession area, AySA decided to continue and expand the Water and Work (W+W) programme. This programme was created in 2004 with the dual objective of reducing health risks in low-income areas and offering local sources of employment. It was started as part of a social programme at the time called Unemployed Heads of Households Plan (Plan Jefas y Jefes de Hogares Desocupados), successor of the Work Plan (Plan Trabajar). More than just for delivering services, the W+W programme was conceived as a social protection programme that aimed to promote social inclusion through the creation of "decent and genuine work," a policy orientation that emerged in the context of the massive social mobilization in the wake of the 2001 crisis (Kasparian 2020).

The W+W programme aimed to extend service access in the most vulnerable neighbourhoods through the construction of secondary networks by employing local residents who formed worker cooperatives. Financial resources for the programme came from the AySA's own funds as well as the Sub-Secretariat of Water Resources, through the National Entity of Sanitation Water Works (Ente Nacional de Obras Hídricas de Saneamiento), which covered the cost of organizing and training the cooperatives as well as wages (Lentini 2007). After the termination of the contract with the privatized company in 2006, AySA assumed the responsibility for the W+W programme, expanding the model to all the municipalities in the concession area and adding sanitation services, that is, adding the S+W component.

In 2016, AySA began expanding services beyond the original concession area, incorporating nine new peri-urban municipalities. AySA is now responsible for the entire metropolitan area with the exception of the Berazategui district.

This expansion posed technical and socio-economic challenges for the water operator. Physically, its service area nearly doubled in size. Moreover, these new districts have high rates of poverty. Just under half of the 3 million people added to the concession area live in informal settlements (Salvia 2020). The population in these areas has grown rapidly due to influx of new families moving to more peripheral areas and the densification of the inner-city slums (Cravino 2018; Tobías & Fernández 2019). At the time of expansion, it was estimated that only 38 per cent of the population in these newly incorporated areas had access to the piped drinking water network, and 27 per cent to sanitation services (AySA 2018a).

The ambitious expansion of the service area has meant significant extra costs and the need for further financing. The Argentine government decided to seek external sources through multilateral credit institutions. As explained in the following section, FONPLATA emerged as a key lender for AySA's W/S+W programme for two reasons: the domestic public banking context and FONPLATA's own organizational evolution that made it an ideal lender given the way that it targets the SDGs.

### **Public banks in Argentina**

Argentina has a relatively robust domestic public bank sector with a long historical legacy, with 14 public banks currently in operation (excluding the central bank). Public banks include the Banco de la Nación (a large national commercial bank established in 1891), the Bank for Foreign Investment and Trade (Banco de Crédito Industrial, BICE) (an export–import and development bank established in 1993) and several sub-national commercial public banks operating at the provincial or municipal level (see Table 2.1). The overall level of government ownership of assets in the banking sector grew in the past two decades from 30 per cent in 2000 (Barth et al. 2013) to 44 per cent in 2016, which ranks it among the highest levels of government bank ownership in Latin America, after Uruguay (52 per cent), Costa Rica (49 per cent) and Brazil (47 per cent) (World Bank 2022).

Until recently, national and subnational public banks in Argentina did not provide financing for the WSS sector. The domestic public banking system is not well positioned to provide long-term infrastructure financing. Domestic commercial banks remain more focused on short-term loans and meeting the needs of households and small- to medium-sized enterprises (Buenos Aires Times 2021).

Nonetheless, thanks to the SDGs, domestic public banks have begun to show more interest in the WSS in the past few years. In 2019, Banco Nación, Banco Provincia, Banco Ciudad and BICE along with multiple private banks signed onto a protocol initiated by the Inter-American Development Bank (IDB) that outlines strategies to better incorporate sustainable financing in line with the UN SDGs, including SDG 6 (Banco Nación 2019). In 2022, Banco

Table 2.1 Public banks in Argentina

<i>Public Bank Type</i>	<i>Public Bank Names (year established)</i>
Municipal	Banco de la Ciudad de Buenos Aires (1888) Banco Municipal de Rosario (1896)
Provincial	Banco de la Provincia de Buenos Aires (1822) Banco de la Provincia de Córdoba (1873) Banco de Corrientes (1950) Banco de la Pampa (1959) Banco Provincia del Neuquén (1964) Banco Provincia de Tierra del Fuego (1983) Banco Rioja (1994) Nuevo Banco del Chaco (1994) Banco de Formosa (1995) Banco del Chubut (1996)
National	Banco de la Nación Argentina (1891) (Commercial bank) Banco de Inversión y Comercio Exterior (1992) (Development Bank) Banco Central de la República Argentina (1935) (Financial System Lead Bank)

*Source:* Authors' own data according to World Bank Global Financial Development Database released September 2022.

Nación created the ConectarT programme, which allocated US\$41.5 million for residential loans of up to US\$3300 to fund in-home connections to the water network. Still, this programme reflects the bank's role as primarily a consumer lender. Beyond this project, the role of domestic public banks in funding WSS in Argentina has remained relatively low.

Historically, the Argentine government has relied on loans from international bilateral and multilateral development banks to finance its development activities and has provided direct financing to public companies to subsidize their operations. For example, since AySA was established in 2006, transfers from the national government have typically composed around 50 per cent of AySA's financing, representing over US\$5 billion of US\$7.6 billion in total financing. As summarized in Figure 2.2, the rest has come from multilateral development banks. Total still-active loans issued since 2008 amount to US\$1.7 billion from IDB, US\$283 million from the Development Bank of Latin America and the Caribbean (CAF), US\$235 million from the World Bank and US\$80 million from the European Investment Bank (AySA 2020, 31–3). Financing for smaller projects, including the US\$30 million loan from FONPLATA for the W/S+W programme, makes up less than 1 per cent of the total funding portfolio (AySA 2020, 9).

The national government remains responsible for these loans, meaning that it is responsible for paying the instalments and interest on the loans. These costs are not borne by the water operator or its users.

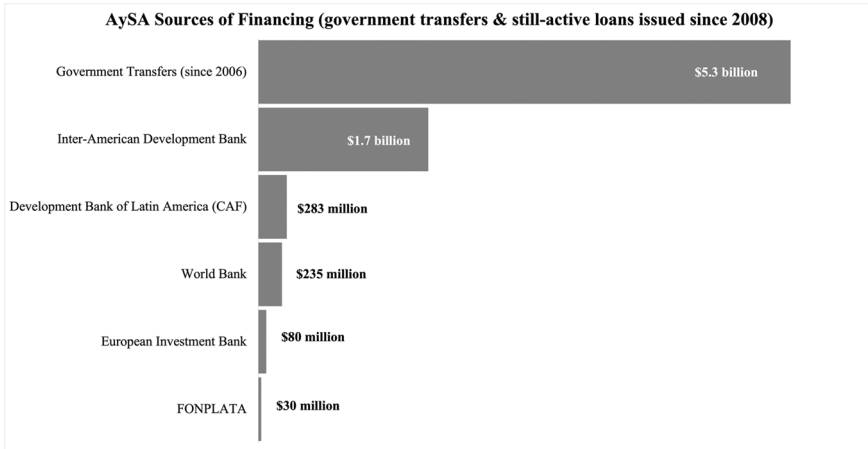


Figure 2.2 AySA funding (total loans and transfers), 2008–20.

Source: AySA (2020).

### *Río de la Plata Basin Financial Development Fund (FONPLATA)*

The origin of FONPLATA dates back to the Act of Santa Cruz de la Sierra signed in 1968, which initiated the process of integration and coordination to identify the needs of the La Plata Basin's area of influence. A year later, in 1969, the First Extraordinary Meeting of the Foreign Ministers of Argentina, Bolivia, Brazil, Paraguay and Uruguay was held, and the Treaty of the La Plata Basin was signed with the objective of joining efforts to promote economic development in the sub-region. Within this framework, the Financial Fund for the Development of the La Plata Basin, FONPLATA, was created in 1971. In 1977, it officially started its operations, establishing its headquarters in Sucre, Bolivia (FONPLATA website).<sup>2</sup>

In the initial decades of its operations, FONPLATA focused its lending on large infrastructure projects (interview 1). As described in Figure 2.3, physical infrastructure such as transportation and housing infrastructure comprises the vast majority of its loan portfolio, and the percentage of this part of the loan portfolio has increased in the past decade. However, in terms of amounts of financing (but not as overall percentage), activity in the productive and socio-economic development has also increased. From 2014 to 2022, annual investment activity in these two sectors doubled from \$211 million to \$422 million, with consistent increases occurring year over year. In 2022, this investment in productive and socio-economic development can be further broken down into lending to health and education (8 per cent), financial services (5 per cent), WSS (5 per cent) and environment

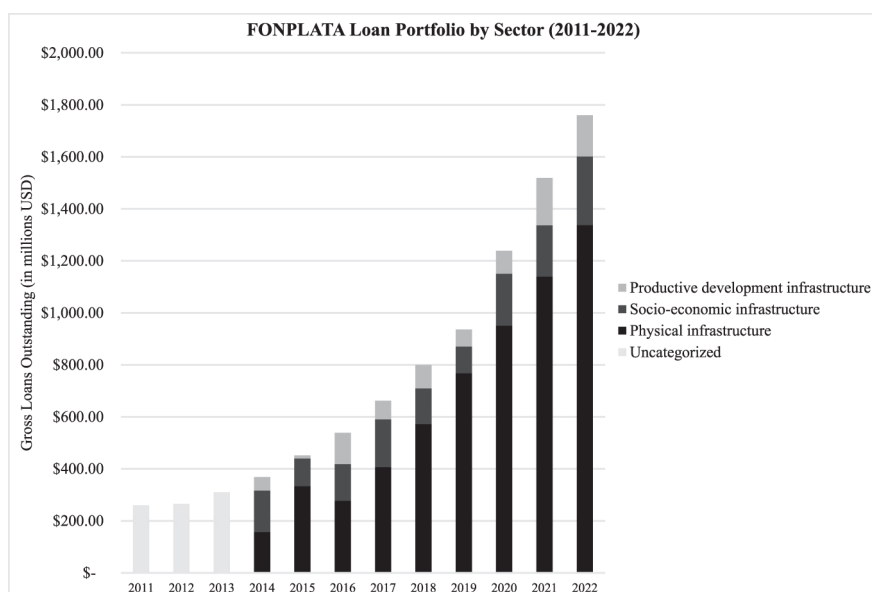


Figure 2.3 FONPLATA loan portfolio by sector, 2011–22.

Source: FONPLATA’s 2015 and 2021 Annual Reports.

(2 per cent), among others (see Figure 2.4). Over this same time period, the average size of loans in these sectors fluctuated between US\$25 million and US\$42 million.

FONPLATA’s steady focus on socio-economic lending in recent years has been facilitated by internal institutional reforms, a response to changes in the domestic political–economic demands of its member countries and the broader global context of multilateral development banks and international financial institutions. FONPLATA created the Executive President position in 2012, which gave the bank clearer leadership (interview 1). Since then, its overall loan portfolio grew in size (between 15 and 20 per cent) year over year, aided by prudential management, successful project development and a US\$75 million credit from CAF.<sup>3</sup> In 2016, FONPLATA received its first international credit ratings: A2 by Moody’s and A- by Standard & Poor’s (FONPLATA website). These internal institutional changes and growing confidence of the member countries generated more loan capacity, which allowed FONPLATA to provide more financing towards these other socio-economic sectors in a sort of “virtuous circle” (interview 1).

FONPLATA has also changed its orientation as member governments have sought to incorporate the SDGs into domestic policy (interview 1). FONPLATA works continuously with the bank’s member countries to identify financing needs and priorities. The specific way the domestic financing

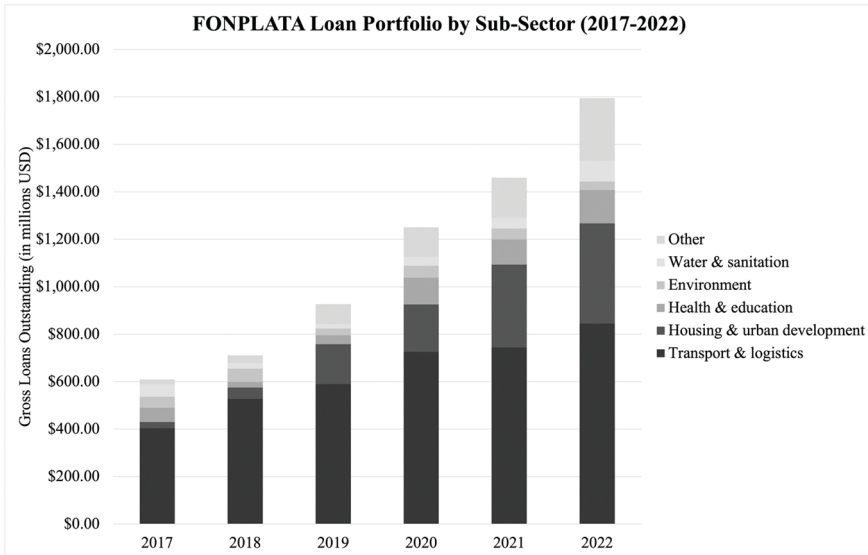


Figure 2.4 FONPLATA loan portfolio by sub-sector, 2017–22.

Source: FONPLATA Annual Reports from 2014 to 2021.

needs of each country affect FONPLATA's lending varies by country as it works with different government actors in each country (for example, in Brazil, it works with municipalities, in Argentina, it works with provincial and national governments). As one informant put it:

The demands come from the [member] countries; therefore, the bank's priorities come from the [member] countries. The bank works daily with the actors in each country to find out what their demands are, but it prioritizes each country's investments. Once that investment is prioritized, the bank analyzes it and then implements it. (Interview 3)

Finally, FONPLATA's lending activity is also influenced by commitments it makes as part of multilateral initiatives and from other lenders. In 2021, FONPLATA signed a joint declaration committing to finance SDG 6 as part of the Water Finance Coalition within Finance in Common, a global network of public development banks (Finance in Common 2021). A representative with FONPLATA noted that the bank hopes to gain reputational benefits by emulating other regional or multinational banks in supporting sustainable development measures, as well as avoid being accused of greenwashing (interview 1). Additional external pressures have come from the (mostly European) development banks that invest in FONPLATA, which have further encouraged it to categorize their loans in terms of the SDGs. From the

perspective of FONPLATA managers, the W/S+W loan to AySA corresponds well with this new orientation since it aims to achieve goals related to water and sanitation (SDG 6) as well as gender equality (SDG 5) and decent work (SDG 8) (interview 1).

One FONPLATA representative further pointed out that the loan not only helps fulfil their goal to incorporate the SDGs into its lending, but it helps them carve out a specialist niche in the financial ecosystem:

Basically, we feel like sellers, and as sellers we have a lot of products that are instrumental to our business.... If we were a seller of just one project, [countries] would say ‘we already have that product, we don’t need more.’ To have distinct projects lets us have more [loan] approvals... and so we’re pushing forward this portfolio [of results-based disbursements] not just with AySA, but in general. (Interview 3)

### **Merging of interests: results-based lending**

In Argentina, the national government solicits demands for financing from the different provinces, ministries and public companies, including AySA. The office of the Secretary of Strategic Affairs (SSA) prioritizes the demands and decides which lender to approach depending on the amount and terms of the financing needed (interviews 3, 4). Since FONPLATA only offers relatively small loans not exceeding US\$40 million, the SSA identified that it would be a suitable lender to approach to finance AySA’s W/S+W programmes (interview 6). Other multilateral development banks and international financial institutions involved in the water and sanitation sector, such as the World Bank, CAF and IDB offer loans starting at much larger amounts.

Originally, AySA and FONPLATA proposed a type of typical works-based contractual agreement that would involve disbursement of funds upon receipt of “certificates of works completion.” These certificates are commonly used in contracts governing large infrastructure projects, such as building a bridge (interview 6). Once the work is completed, the contractor issues a certificate. As the negotiation between AySA and FONPLATA progressed, however, it became apparent that such an approach would not work given the complexity involved with the number and nature of the different contractors (small cooperatives) as well as the socio-economic goals of the project which extend beyond bricks and mortar—i.e., job creation.

AySA’s W/S+W programmes involve multiple actors with diverse competencies involved at different stages in the execution (see Figure 2.5). These programmes require coordination between three different sets of actors: the water operator (AySA), which designs the project and provides the main financing and technical supervision for the projects; the neighbourhood cooperatives, which provide the labour for constructing the networks; and the municipalities, which are in charge of providing some material inputs and carrying out technical management. Other government agencies that provide

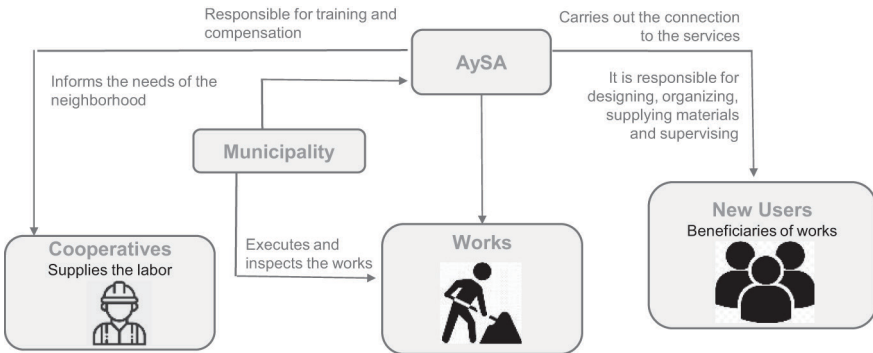


Figure 2.5 Actors involved in the W/S+W programmes.

Source: Adapted from AySA (2020).

technical and legal assistance are involved as well. Since each entity has its own rules for operating and systems for reporting, a number of administrative challenges had to be overcome in the setting the terms of the loan.

FONPLATA offered to change the modality for loan disbursements to reflect the socio-economic goals of the project. This capacity for change on the part of FONPLATA expresses what Marois (2022b) defines as part of the dynamic theory of public banks, recognizing the need to rethink public banks as changing and contested entities within the public spheres of the states. As a representative with AySA put it:

We started the negotiation as a traditional loan for works, and in the middle of the negotiation the issue of the need to hire worker cooperatives arose. It would be difficult for the cooperatives to pass the bank's institutional evaluation, so they offered the possibility of changing course.

(Interview 6)

Luckily, it was not FONPLATA's first experience negotiating the terms of a results-based loan. It was previously involved in a project that involved numerous worker cooperatives in Bolivia. Drawing from this experience, FONPLATA proposed a similar arrangement where the executing agency (in this case, AySA) would make agreements with municipalities, which in turn would be put in charge of the contracts with the cooperatives.

The partnership is based on a clear division of responsibilities. AySA is responsible for overseeing the local procurements needed to execute the W/S+W programmes, while FONPLATA focuses controlling and measuring the project results. FONPLATA agreed not to interfere with the procurement processes involving the municipalities and the worker cooperatives, although normally contractors would be subject to their evaluation procedures.

Table 2.2 Targets, amounts and expected timing for each tranche of disbursement

		PROJECT MONTH (ESTIMATED)				
Indicator measurement	–	5	12	18	24	36
Disbursements <sup>a</sup>	–	7	14	20	26	36
INDICATOR	BASELINE	TRANCHE OF DISBURSEMENT				
		1	2	3	4	5
		INTERMEDIATE TARGET VALUE			TARGET VALUE	
Executed sewerage connections	0	2500	11,500	18,000	26,000	41,287
Available sewerage connections	0	0	4000	13,000	19,000	41,287
Executed connections to water mains	0	1500	8500	14,000	20,000	31,319
Actual connections to water pipes	0	0	3000	10,000	16,000	31,319
Employment generation (50% women <sup>b</sup> )	0	600	920	1820	1820	1820
<b>AMOUNT</b>	-	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>
<b>JUSTIFICATION / DISBURSEMENT</b>						

Source: FONPLATA (2020b) Loan Contract ARG-47/2020. Appendix 1.

Notes:

<sup>a</sup> Up to 60 days may elapse between the measurement and the execution of the respective disbursement, as the time required for the issuance and distribution of the measurement report, as well as for the administrative processing of the disbursement.

<sup>b</sup> 50% will be required only for the formation of new cooperatives.

A representative from FONPLATA stressed that their intention was to try to facilitate the continuity of AySA’s W/S+W programmes rather than to impose a set of new requirements: “We embarked together to give continuity to something that [AySA] was already doing and that it was doing very well” (interview 3).

Negotiations took several months, in part due to the complexity of the deal but also delays related to the onset of the COVID-19 pandemic in March 2020. As another FONPLATA representative involved in the negotiations recalls, one of the most difficult aspects of the negotiations was deciding what to include in the results matrix (Tables 2.2 and 2.3). The US\$30 million loan was to be distributed in five equal disbursements over a term of 36 months. These disbursements are tied to targets for water connections, sewer connections and jobs. Given the fact that AySA was already working with a number of cooperatives in some of the municipalities, only newly formed

Table 2.3 Programme results matrix (units)

INDICATOR	BASELINE	GOAL	VERIFICATION MEANS
Increase available sewerage connections	0	41,287	Measurement
Increase effective connections to the water network	0	31,319	Institution
Employment generation	0	1820	Independent

Source: FONPLATA (2020b) Loan Contract. ARG-47/2020 Appendix 1.

cooperatives are expected to meet the gender equality target for hiring (50 per cent of workers are to be women) (interview 1).

### The FONPLATA loan: improving access to WSS, creating jobs

The FONPLATA loan provides financing to the department within AySA responsible for the execution of the W/S+W programmes, the Community Development Department (Dirección de Desarrollo de la Comunidad, or CDD). In addition to the US\$30 million loan, AySA has contributed another US\$10 million of its own resources for a total of US\$40 million allocated to further develop these programmes. The CDD is relatively small (90 out of 8000 employees at AySA), but it has grown substantially in recent years in terms of its visibility and budget (interview 6). The CDD is responsible for the operational part of the W/S+W programmes while the Economic and Financial Department handles the administrative management of the loan.

The loan ultimately benefits 16 of the 26 districts located mainly in the southern and western areas of the company's current concession area. These municipalities include: Almirante Brown, Avellaneda, Esteban Echeverría, Escobar, Ezeiza, Florencio Varela, La Matanza, Lomas de Zamora, Merlo Morón, Pilar, Quilmes, San Martín, San Miguel, Tigre and Tres de Febrero. The specific neighbourhoods targeted through these programmes were identified in the last company's Improvement, Operation, Expansion and Maintenance Plan (IOEMP 2019–23). This plan is updated every five years and defines AySA's expansion policy according to technical feasibility criteria determined by proximity of the network to the area served and the availability of a main water supply.

These municipalities hire the local worker cooperatives for the execution of the secondary networks. The cooperatives are formed by neighbours who are beneficiaries of social plans such as Argentina Works (Argentina Trabaja). These cooperatives must be composed of unemployed or informal employment residents of the beneficiary communities. An AySA representative within the CDD described this process in more detail:

AySA contributes through the technical feasibility, the project, the social-territorial approach work, the works inspection, the line materials, that is, the materials that are typical of the network.... Under this agreement, the municipality finances the cooperative's labour, civil works materials, simple materials (sand, cement) and all the cooperative's equipment. We do not assume that the cooperative, which is part of the informal labour sector, has the equipment necessary to carry out these works, so everything needed to carry out this work is financed. If it is the first time a cooperative is doing this work, training and other miscellaneous expenses necessary for the execution of the work are paid for.

(Interview 6)

This phase of the W/S+W programme aims to expand 187 secondary networks, 103 for sewers and 84 for water, in densely populated neighbourhoods. The aim is to create more than 31,000 new drinking water connections and 41,000 new sewage connections. Overall, the project is expected to benefit more than 380,000 inhabitants and generate more than 1800 direct jobs within these communities.

By virtue of implementing the W/S+W programmes, the programmes primarily benefit vulnerable neighbourhoods (especially slums and settlements) where poverty, indigence, unemployment and the COVID-19 pandemic-related WSS access concerns have grown in recent years. Thus, the stated primary goal of the loan is “to contribute to improve the quality of life of the inhabitants of vulnerable populations through access to drinking water and sanitation services, promoting socio-economic development and favouring environmental care” (FONPLATA 2020a).

### **Reaching the “last mile” in water supply and sanitation**

Despite the expansion of the secondary networks, the fact that an area has service coverage does not mean that individual households connect to the network, a problem known as the “last mile” (Tobías & Catenazzi 2022). Intra-domiciliary connections continue to be the responsibility of the household. To expand access to safe water supply, in 2020, some of the W+W plans began to include the installation of a water tap inside the lot but outside the house. But there is no equivalent to a household connection for sanitation services. Households without connections to the formal sanitation network continue to use unsafe methods for sewage, including pit latrines or open defecation, which contribute to environmental contamination and create public health problems.

Building on the experience with FONPLATA and the results-based loan, the national government decided to seek additional external financing to support household connections to water and sewage in the areas where secondary networks were expanded. In 2021, the World Bank approved a US\$300 million loan for the Water Supply and Sanitation with a Focus on

Vulnerable Areas Program, with a grant of US\$49 million for payment for results (World Bank, n.d.), for a total of US\$349 million. The programme is structured around three key results areas. First, the programme aims to expand water supply and sanitation services with a focus on vulnerable areas in selected municipalities of peri-urban Buenos Aires. This includes the intra-household connections managed by the Community Development Department for a total of US\$30 million from the total amount. Second, it aims to improve the commercial and operational efficiency of AySA through the design and implementation of an efficiency improvement action plan. Third, it aims to increase AySA's capacity to respond to water supply and sanitation emergency needs, such as COVID-19.

With these two loans from FONPLATA and the World Bank, AySA was able to more fully address the problem of low rates of WSS connections. In fact, before the World Bank loan came out, progress had already been made in this area, particularly in water, thanks to the installation of household taps (interview 6). Between 2020 and 2022, the W/S+W programmes had achieved the 1820 jobs agreed to the results matrix and had made progress in the implementation of 30,000 drinking water connections and 41,000 sewage connections. It is important to note that although both loans (FONPLATA and World Bank) are aimed at advancing the objectives of the CDD in terms of expanding real water and sanitation coverage for the inhabitants of vulnerable neighbourhoods, both programmes have different areas of intervention (neighbourhoods) and different goals. In the case of the World Bank's performance-based loan, the priority is to increase the number of connections in neighbourhoods that already have secondary networks; that is, to solve the gap between existing service and connection. This second loan aims to fill service gaps in areas where the secondary network was installed thanks to the FONPLATA loan, but many households have not yet connected. On the other hand, in the FONPLATA loan, the focus is on advancing with works and extending networks through the work in the W/S+W programmes. Thus, it is possible to note two different indicators for each of the loans: one is connections executed (which is the one used by the FONPLATA loan) and refers to works carried out; the other is connections in service, which is the one targeted by the World Bank with the intra-household connection work.

Despite the progress achieved through the W/S+W programmes, these programmes alone will not achieve universal service provision in AySA's concession area until there is a further expansion of the core network. In order to meet the technical criteria established by the FONPLATA loan, the neighbourhood must be within the proximity of the existing core network, which remains limited to date. As a result, only the neighbourhoods closest to existing water and sewage networks have been included in the current expansion plans. To reach more distant and peripheral areas, AySA must increase the capacity of the core network by expanding existing water treatment plants and by laying down more master pipes to transfer water

from the plant to new localities. This expansion will require large-scale investment.

The COVID-19 sanitary emergency and social and political pressure have led to the prioritization of improving access in neighbourhoods that do not yet meet the established technical criteria, which remain outside the scope of the FONPLATA loan. In some of these neighbourhoods, AySA is drilling wells to extract underground water sources and, in some cases, mixing it with surface water, despite the fact that the water quality is compromised mainly by nitrates and nitrites.

AySA has planned some expansion the capacity of the core network as part of its 2019–23 Improvement, Operation, Expansion and Maintenance Plan. It also continues to seek financing from international lenders, including from private sources. For example, in 2018, AySA was successful in obtaining a bond from private international investors amounting to \$500 million and with a five-year term (OECD 2019; AySA 2018b).

## **Conclusion**

Our analysis of the FONPLATA loan to AySA for the implementation of the W/S+W programmes yields three key lessons for discussion on public banks and public water. First, FONPLATA's results-based loan for W/S+W programmes allows the bank to be flexible enough to adapt to the needs and characteristics of territorial policies—in this case, the goals of the Argentine government in the WSS sector—which, in addition to service expansion objectives, includes social goals such as employment generation. The results-based model is what allowed the bank to overcome bureaucratic and administrative barriers that in another context would have made loan execution unfeasible. This is mainly because in traditional international loans, the lenders need work certificates from various locations where projects will be executed to finance the works. Obtaining this documentation is complex due to the nature of the W/S+W programmes, involving multiple actors and contractual situations. In the case of this project, AySA supervises the works, and the municipalities are responsible for hiring the cooperatives. In this context, the choice of the performance-based lending modality makes it possible to avoid these administrative steps and focus specifically on compliance and disbursement indicators. In turn, the definition of results-based lending served as a precedent for other multilateral lending agencies such as between the World Bank and AySA to enable this type of loan modality within their loan portfolios.

Second, the collaboration between FONPLATA and AySA to develop a loan that could finance a multifaceted programme that emphasizes cooperative workforce development and gender equity alongside WSS expansion serves as an effective model of public–public collaboration and social–public partnerships. In this sense, AySA's loan with FONPLATA was a key precedent for other lending agencies—such as the World Bank—to include this type

of results-based lending in the W/S+W programme. Moreover, the multifaceted nature of the programme advances multiple socio-economic outcomes that go beyond economic efficiency, incorporating meaningful social impacts within the communities served. This allowed FONPLATA to link the loan to multiple SDGs while the project itself accords with numerous “metrics that matter” that are worthy of emulation in other projects that aim to universalize WSS (Marois et al. 2023, 21; Marois 2022a).

Third, details matter. While multilateral banks typically prioritize funding extensive infrastructure projects aimed at enhancing the technical capacity of water and sanitation systems—such as water treatment plants, effluent treatment plants or large main sewers—smaller yet crucial undertakings vital for the efficient functioning of the system, such as connections or secondary networks, often depend on the financial capabilities of service providers at best, or the users themselves. Consequently, this scenario frequently results in significant investments not translating into a commensurate expansion of household network coverage. The results-based lending collaboration between FONPLATA and AySA serves as an illustrative example of how public financing can serve as a valuable, dynamic and compelling tool in mitigating disparities in the system’s last mile.

Ultimately, through both the nature of the public–public and social–public partnerships and the focus on impact, the FONPLATA loan offers a water financing model that is a departure from typical lending arrangements with large multilateral lenders such as the World Bank and IMF. The case further highlights the potential for regional public banks to serve as market leaders while also more closely reflecting the national interests, which are themselves informed by local need. To the extent that multilateral lenders continue to follow suit, this results-based loan could help recentre the value of impact-oriented public–public partnerships as an approach to water financing and meeting SDG 6.

However, it is important to highlight some potential challenges associated with the results-based lending approach that emerge from the case analyzed, and that are necessary to consider in view of new possibilities for public financing. One major concern is the need to align the coherence of the results frameworks and integrate the disbursement-linked indicators with programme action plans (Gelb & Hashmi 2014). This alignment is crucial to ensure a clearer connection with developmental results and the long-term objectives of the supported government programmes. Besides, while results-based programmes encourage the achievement of ambitious goals, which can lead to a greater developmental impact, the stringent conditionality of disbursements can introduce significant financial uncertainty for implementing agencies. This uncertainty can test their capacity, particularly in contexts of political instability, economic fluctuations or environmental challenges. Additionally, the administrative burden associated with monitoring, reporting and verifying results can be considerable, potentially diverting resources from the actual delivery of services.

## Notes

- 1 A provincial company, Aguas Bonaerenses S.A., covers most of the rest of the province.
- 2 FONPLATA. [www.fonplata.org/es/institucional/nuestra-historia](http://www.fonplata.org/es/institucional/nuestra-historia)
- 3 Fonplata – CAF otorga línea de crédito a FONPLATA por USD. 75 millones, lo que permitirá el fortalecimiento institucional [www.fonplata.org/es/noticias/09-12-2014/caf-otorga-linea-de-credito-fonplata-por-usd-75-millones-lo-que-permitira-el-fortalecimiento-institucional](http://www.fonplata.org/es/noticias/09-12-2014/caf-otorga-linea-de-credito-fonplata-por-usd-75-millones-lo-que-permitira-el-fortalecimiento-institucional)

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### Appendix: Interviews (ordered by the date of interview)

<i>Interview</i>	<i>Person</i>	<i>Role</i>	<i>Date</i>
1	(Name withheld)	Chief of Staff, Responsible for Projects in Argentina and Specialist in monitoring and evaluation, FONPLATA (regional representative)	July 7, 2022
2	(Name withheld)	Urban Infrastructure, Water and Sanitation Projects Directorate, Development Bank of Latin America and the Caribbean (CAF)	July 8, 2022
3	(Name withheld)	Specialist in monitoring and evaluation, FONPLATA	July 25, 2022