

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**ARGENTINA**

**WATER AND SANITATION PROGRAM FOR THE BUENOS AIRES  
METROPOLITAN AREA AND CONURBATION**

**(AR-L1195)**

**THIRD LOAN**

**UNDER THE CCLIP  
(AR-X1013)**

**LOAN PROPOSAL**

This document was prepared by the project team consisting of: Henry A. Moreno (WSA/CAR), Project Team Leader; Kleber Machado, Alternate Project Team Leader; Sasaki Keisuke and Liliana López (INE/WSA); Milagros Aimé and Gustavo Gonnelli (WSA/CAR); Sofía García Bailón (CSC/CAR); Jorge Oyamada (WSA/CPR); Tania Páez (WSA/CUR); Serge Troch (VPS/ESG); Rodolfo Graham (LEG/SGO); Camilo Garzón (consultant); Brenda Álvarez Junco and David Ochoa (FMP/CAR).

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## ABBREVIATIONS

AGN	Auditoría General de la Nación [National Audit Office]
AWP	Annual work plan
AySA	Agua y Saneamientos Argentinos, S.A.
CCLIP	Conditional Credit Line for Investment Projects
CNPV	Censo Nacional de Población y Viviendas [National Population and Household Census]
EIA	Environmental impact assessment
ENOHSA	Ente Nacional de Obras Hídricas y Saneamiento [National Water Works and Sanitation Agency]
ESMR	Environmental and social management report
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
INDEC	Instituto Nacional de Estadísticas y Censos [National Statistics and Census Institute]
INE/WSA	Infrastructure and Environment Sector/Water and Sanitation Division
m <sup>3</sup> /d	Cubic meters per day
MIOPyV	Ministry of the Interior, Public Works, and Housing
NCB	National competitive bidding
PEP	Project execution plan
PMR	Progress monitoring report
SSRH	Subsecretaría de Recursos Hídricos [Office of the Deputy Secretary for Water Resources]

## PROGRAM SUMMARY

### ARGENTINA

## WATER AND SANITATION PROGRAM FOR THE BUENOS AIRES METROPOLITAN AREA AND CONURBATION (AR-L1195)

### THIRD LOAN UNDER THE CCLIP (AR-X1013)

Financial Terms and Conditions						
<b>Borrower:</b> Argentine Republic			<b>Flexible Financing Facility<sup>(a)</sup></b>			
			<b>Amortization period:</b>		25 years	
			<b>Original WAL:</b>		14.75 years	
			<b>Disbursement period:</b>		4 years	
<b>Executing agency:</b> Agua y Saneamientos Argentinos, S.A. (AySA)			<b>Grace period:</b>		4.5 years	
			<b>Inspection and supervision fee:</b>		(c)	
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Interest rate:</b>		LIBOR-based	
<b>IDB (Ordinary Capital):<sup>(b)</sup></b>	320	80	<b>Credit fee:</b>		(c)	
<b>Local contribution:</b>	80	20	<b>Currency:</b>		United States dollars from the Ordinary Capital	
<b>Total</b>	400	100				
Project at a Glance						
<b>Objective and description:</b> The objective of the program is to improve and expand water and sanitation services in the Autonomous City of Buenos Aires and municipios of the Buenos Aires Conurbation. The third operation under the line of credit will enhance the reliability of the water treatment and distribution system, reduce physical losses, expand sewerage services, and increase wastewater treatment capacity.						
<b>Special contractual conditions precedent to the first disbursement:</b> (1) The executing agency will present evidence that the current execution plan has been ratified for execution of this loan (paragraph 3.2); (2) and a funds transfer agreement will be signed between the borrower and the executing agency and will include, <i>inter alia</i> : (i) the mechanism for transferring the loan proceeds and the counterpart contribution to the executing agency; (ii) the executing agency's commitment to use the funds and carry out the program's activities in accordance with the terms of the loan contract; and (iii) the borrower's commitment to promptly transfer funds from the national budget to AySA in the event that rate revenue fails to cover administrative, operating, maintenance, and depreciation expenses (paragraph 3.2).						
<b>Special contractual conditions for execution:</b> The borrower, acting through AySA, will: (i) show in the fourth year of program execution that the water supply and sewerage services generate sufficient revenue to cover administration, operation, maintenance, and depreciation expenses (paragraph 2.10); and (ii) present to the Bank the environmental studies, environmental permits, and evidence that consultations/information workshops have been conducted with regard to the planned works, in accordance with the provisions of the Environmental and Social Management Report (ESMR) ( <a href="#">REL#4</a> ) (paragraph 2.4).						
<b>Exceptions to Bank policies:</b> None						
Strategic Alignment						
<b>Challenges:<sup>(d)</sup></b>	SI	<input checked="" type="checkbox"/>	PI	<input type="checkbox"/>	EI	<input type="checkbox"/>
<b>Crosscutting themes:<sup>(e)</sup></b>	GD	<input type="checkbox"/>	CC	<input checked="" type="checkbox"/>	IC	<input type="checkbox"/>

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, and currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> The disbursement of the loan proceeds will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months, in all cases from the date of approval of the loan by the Bank's Board of Executive Directors.

<sup>(c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING<sup>1</sup>

### A. Background and problem addressed

- 1.1 In November 2008, the Bank approved a Conditional Credit Line for Investment Projects (CCLIP) for up to US\$720 million and the first loan for the “Water and Sanitation Program for the Buenos Aires Metropolitan Area and Conurbation” (AR-X1013). Loan operations 2048/OC-AR (see [link](#)) and 2613/OC-AR (see [link](#)), for US\$200 million each, have been approved under this CCLIP. The program presented in this document is the third and final individual operation under the CCLIP. The program’s area of influence is the Autonomous City of Buenos Aires and 17 adjacent municipios in the province of Buenos Aires (a region known as the Buenos Aires conurbation), where close to 11 million people live.
- 1.2 Agua y Saneamientos Argentinos, S.A. (AySA) is the entity responsible for providing water and sanitation services in the city of Buenos Aires and the conurbation. AySA’s activities are framed within a sector structure that assigns policy-making, sector planning, regulatory, and service delivery roles to different institutions. This has allowed for adequate planning, execution, and control of expansion plans ([OEL#14](#)). The regulatory framework established by Law 26,221 and its implementing regulations (Decree 763) was supplemented by a binding instrument signed by the national government and AySA in February 2010. These instruments endow AySA with the necessary rights and responsibilities to effectively manage the water and sanitation systems and are sufficient to execute the program’s envisaged activities ([OEL#3](#)).
- 1.3 The main challenge identified<sup>2</sup> when the CCLIP was being designed was to increase coverage in the conurbation,<sup>3</sup> where more than 2 million people had no access to piped water and 3.8 million people used septic tanks, contaminating the groundwater or waterways in the Matanza-Riachuelo<sup>4</sup> and Reconquista river basins,<sup>5</sup> which are classified as the most polluted in the country. Between 2006 and 2014, with the investments financed by the national government and in part by this CCLIP, water and sanitation coverage respectively increased by 7.6 and 7.1 percentage points, respectively, adding 2.3 million and 1.7 million service beneficiaries ([OEL#6](#) and [OEL#7](#)). However, ensuring sustainable, quality access to these services in the conurbation continues to involve significant challenges, partly due to a population increase of almost one million in the AySA service area in the 2006-2014 period, and close to 12.4% of the population still lacks water service and 32.9% of the population still lacks sewer service (AySA 2014).<sup>6</sup> There are disparities in service delivery between the city of Buenos Aires, which is home to 3.2 million people and where coverage of both services is close to 100%, and the Buenos Aires conurbation, where approximately 7.5 million people live and

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<sup>1</sup> Bibliographic references are available for consultation in [OEL#13](#).

<sup>2</sup> Other challenges included rehabilitation of networks, promotion of rational water use, and sustainability of the service.

<sup>3</sup> Baseline coverage in the conurbation (2006) was 67% for water and 40% for sanitation.

<sup>4</sup> Water pollution: history and current status in the Matanza-Riachuelo basin (see [link](#)). Multicriteria evaluation of environmental risk exposure using a geographic information system in Argentina (see [link](#)).

<sup>5</sup> Diagnostic report on the situation in the Reconquista River basin. Halcrow, 2011 (see [link](#)).

<sup>6</sup> AySA, Report to Users, December 2014 (see [link](#)).

where, according to the 2010 National Population and Household Census (CNPV 2010), water and sanitation service coverage is respectively 82% and 54%,<sup>7</sup> with the poorest population segments having the lowest levels of access to these services. Respectively, 64% and 17% of the poor population has access to water and sanitation services, compared with 94% and 90%, respectively, of the higher-income population.<sup>8</sup> This is particularly significant given the positive link<sup>9</sup> that exists between environmental quality,<sup>10</sup> health,<sup>11</sup> and access to water and sanitation services. The likelihood of contracting waterborne diseases diminishes when there is water and sanitation service,<sup>12</sup> as does the risk of other diseases,<sup>13</sup> including hepatitis, intestinal infections, gastroenteritis, and parasites, along with infant mortality<sup>14</sup> and morbidity.<sup>15</sup>

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<sup>7</sup> Based on data from the CNPV 2010.

<sup>8</sup> According to the CNPV 2010 and in line with the socioeconomic level of the census bloc (social stratification based on the economic capacity indicator – CAPECO).

<sup>9</sup> Documented in numerous microeconomic studies, such as those summarized by Brennenman and Kerf (2002).

<sup>10</sup> Evidence of the effectiveness of actions on environmental quality: Avaliação do Projeto Belém-Pará. Estudo Longitudinal da Bacia do UNA [Evaluation of the Belém-Pará Project. Longitudinal Study of the Una Basin], 2004 (see [link](#)); Ampla. 2006. Ex post evaluation of project 649/OC-BR (see [link A](#) and [link B](#)).

<sup>11</sup> Evidence of the effectiveness of these interventions in reducing the incidence of waterborne diseases: Galiani et al. (2009) examined the effects of an expanded drinking water system on urban settlements in Argentina and found great reductions in the presence, frequency, and severity of episodes of diarrhea among children (see [link](#)). M. L. Mascarini et al. Impacto de um programa de saneamento ambiental na prevalência e na incidência de parasitoses intestinais na população de idade escolar de Salvador [Impact of an environmental sanitation program on the prevalence and incidence of intestinal parasites in Salvador's school-age population]. Revista VeraCidade. Year IV. No. 14. March 2009 (see [link](#)).

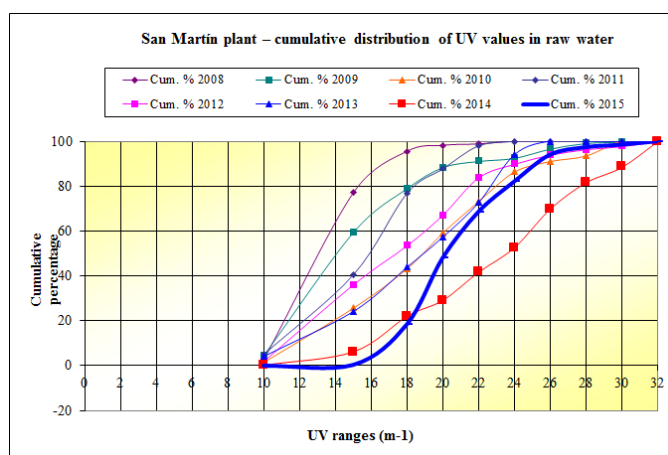
<sup>12</sup> Lack of access to sewerage service elevates the likelihood of contracting waterborne diseases by 11% to 24%, depending on the type of disease. For minors without sewerage service, the likelihood of contracting diarrhea is 0.32 (vs. 0.21 when there is sewerage service) and the likelihood of contracting parasites is 0.38 (vs. 0.14 when there is sewerage service). Halcrow 2013. Environmental Management Plan for the Reconquista River Basin (see [link](#)).

<sup>13</sup> Lack of water is associated with chronic intoxications from arsenic, selenium, and other metals, viral hepatitis A and E, viral meningitis, leptospirosis, typhoid fever, and a variety of intestinal parasites.

<sup>14</sup> Formal studies by Behrman and Wolfe (1982), Lavy et al. (1996), Lee et al. (1997), Shi (2000), Newman et al. (2002), Leipziger et al. (2003), Wagstaff and Claeson (2004), and Gamber-Rabintran et al. (2010) have found that access to clean water and sanitation infrastructure helps to reduce infant mortality. In the specific case of Argentina, Galiani et al. (2002) found that water service access and quality improvement reduced infant mortality by 5% to 7% in areas with privatized services and that this effect was greater (24%) in the poorest areas.

<sup>15</sup> M. Conte Grand and G. Coloma. Beneficios Económicos por Obras de Infraestructura de Agua y Saneamiento en la Argentina. Valuación de la Mortalidad y la Morbilidad por Episodios Evitables de Diarreas [Economic Benefits of Water and Sanitation Infrastructure Works in Argentina. Evaluation of Mortality and Morbidity Due to Preventable Episodes of Diarrhea]. Cámara Argentina de la Construcción [Argentine Construction Industry Chamber]. November 2009 (see [link](#)).

1.4 In addition to the coverage gaps and unequal access, AySA faces other challenges in ensuring water and sanitation service quality. These include deteriorating quality of the water sources, primarily the River Plate<sup>16</sup> (the figure shows the increase over time in the number of high-turbidity events at the catchment source, which means lower water production capacity at the San Martín water treatment plant during those periods), the difficulty in meeting growing user demand, and an increase in operating costs.<sup>17</sup> The drop in water production capacity due to an accumulation of sludge and encrustation in the iron pipes, coupled with the need to retool and renovate infrastructure in order to enhance its operational efficiency and production capacity and improve personnel skills, poses challenges in terms of sustaining the production levels at the San Martín water treatment plant.<sup>18</sup> To address the challenge of increasing the continuous production capacity<sup>19</sup> from 3.1 million to 3.25 million cubic meters per day (m<sup>3</sup>/d), AySA will, under this operation, install barriers prior to the intake of raw water into the settling tanks, optimize the operation of the settling tanks, filters, and conveyance channels for the clarified water, and improve the lime addition system to regulate the water's pH, with a view to reducing the amount of time that the San Martín plant is taken offline for maintenance and cleanup.



1.5 Ongoing needs include rehabilitating and renovating the distribution infrastructure in order to ensure continuity and quality of service and support service expansion, particularly into new areas in the conurbation that have low coverage<sup>20</sup> (areas outside AySA's current concession). Specifically, the following stand out: (i) high

<sup>16</sup> Instituto Nacional del Agua [National Water Institute]. Evaluación de la Calidad del Agua en la Franja Costera Sur del Río de la Plata [Evaluation of Water Quality in the Southern Coastal Strip of the River Plate] (see [link](#)). The deterioration of water quality is particularly evident from the growing presence of organic matter, reflected primarily in the unfavorable change in UV-254 absorbance (see figure).

<sup>17</sup> AySA 2013. Water Office. Diagnostic Assessment and Description of Operation (see [link](#)). To ensure the required volume and quality, the process is controlled through an increase in the dosage of inputs and/or an increase in the frequency of filter washing (due to premature soiling). This is technically unsustainable over time, entailing high operating costs and depreciation expenses for the facilities.

<sup>18</sup> Under current conditions, the progressive worsening of raw water quality year after year reduces the San Martín treatment plant's capacity to produce water of the required quality. It is estimated that this capacity reduction could be as large as 80,000 m<sup>3</sup>/d over a period of five years, assuming a decrease in production of 0.5% per year.

<sup>19</sup> Current production at the San Martín treatment plant reaches peaks of 3.2 million m<sup>3</sup>/d, but not as an average value, adding 150,000 m<sup>3</sup>/d (setting aside the fact that, in nominal terms, it adds only 50,000 m<sup>3</sup>/d above the nominal 3.2 million m<sup>3</sup>/d).

<sup>20</sup> Coverage is low in Ezeiza (15.4%), Ituzaingó (13.3%), José C. Paz (18.5%), and Malvinas Argentinas (11.2%) in terms of water service, and in Esteban Echeverría (18.4%), Ezeiza (14.7%), Ituzaingó (7.9%), José C. Paz (6.5%), Malvinas Argentinas (2.1%), Merlo (18.4%), Moreno (17.7%), and Tigre (17.6%) in terms of sewer service.



levels of physical losses of water in the distribution system, estimated at 38%, which are expected to be reduced through sectorization, pressure control, and micro-and macro-metering (installation of water meters),<sup>21</sup> with a direct impact on unmet demand;<sup>22</sup> (ii) high system criticality index,<sup>23</sup> with an average of 11 interventions per kilometer per year when the average should be 6 or fewer;<sup>24</sup> and (iii) low network replacement percentage (less than 1% per year, when in developed countries it is on the order of 2%). This points up the need to undertake actions aimed at optimizing the distribution system by adopting an asset management approach,<sup>25</sup> with a view to improving service for existing users and bringing service to new users with the same volume of water production.

- 1.6 In commercial and cost recovery management, challenges persist in terms of reducing consumption levels (average of 31 cubic meters per month per connection); increasing metering levels (currently 20%); and incentivizing a commitment to use water wisely, particularly in a scenario in which most users without service live in areas that are largely poor (see [OEL#1](#)). At the same time, to ensure the financial sustainability of these services, the Argentine government introduced a rate adjustment in April 2016, which will enable AySA to go from covering 40% of its operating and maintenance costs in 2015 to 100% in 2018 (paragraph 2.10). Historically, to meet costs not covered by rate revenue, the national government has issued a transfer of funds to AySA, in a prompt and transparent manner,<sup>26</sup> incorporating these transfers to the company in the national budget.<sup>27</sup>
- 1.7 **Program strategy.** In order to address these challenges, the Argentine government has made it a policy priority to provide access to the country's unserved population and improve service quality and efficiency, setting a target of universal access to safe drinking water and a sanitation coverage rate of 75%.<sup>28</sup> Seeking sustainable and efficient services, the government finances investment in infrastructure and institutional strengthening through the National Water Works and Sanitation Agency (ENOHSA) in the provinces, and through AySA in the city of Buenos Aires and the conurbation. Expansion of services in the conurbation is a priority, this being one of the areas in the country with the highest indigence and

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<sup>21</sup> Evidence of the effectiveness of this type of intervention may be observed in Nilce Regina Da Silva, *Estudo Metodológico para Avaliação de Submedição de Hidrometros Domiciliares em Sistemas de Agua* [Methodological Study to Evaluate Undermetering in Residential Water Meters], Masters' Thesis, University of Brasília, Publication: PTARH-DM-2008 (see [link](#)).

<sup>22</sup> Evidence of the effectiveness of this type of intervention may be observed in: Alex Rizzo, David Pearson, Matthew Stephenson, and Neil Harper, *Apparent Loss Control: A Practical Approach*; International Water Association (IWA), Water 21 seventh article, IWA Task Force, June 2004 (see [link](#)).

<sup>23</sup> This index, measured by the number of interventions per kilometer per network/year, determines upgrading requirements by detecting low pressure, high maintenance costs, and user complaints.

<sup>24</sup> AySA Water Office.

<sup>25</sup> The asset management approach is widely used in developed countries. See Jolicoeur and Barret (2004).

<sup>26</sup> The Ministry of Finance publishes the transfers to AySA and other companies (see [link](#)), specifically in the section Administration Decision No. 1 of Distribution: Treasury Obligations (see [link](#)).

<sup>27</sup> Monthly reports are published on budget execution (see [link](#)).

<sup>28</sup> According to the National Water Plan, projections call for achieving 40% of the target during the 2016-2019 period (see [link](#)).

- poverty rates<sup>29</sup> as well as an area experiencing fast demographic growth<sup>30</sup> and a proliferation of informal settlements.<sup>31</sup> Expanding water and sanitation services is a strategic imperative for meeting the Sustainable Development Goals ([OEL#12](#)). Based on its 2011-2020 strategic plan ([OEL#12](#)), which sets coverage, operating and commercial efficiency, metering, and financial sustainability targets, AySA conducted an exhaustive diagnostic assessment of its infrastructure and management capacities, updated its master plan, and identified operational plans to address the main challenges relating to these services, incorporating risk analysis with monitoring mechanisms. This will enable AySA to maintain and expand its services in line with proper quality standards.
- 1.8 The works proposed for financing under the third operation are based on the priorities identified in the master plan as necessary for upgrading and expanding water and sanitation services. The prioritized projects strike an adequate balance between the need to expand service to new users and the requirements to renovate and rehabilitate facilities that are obsolete (or in poor condition and introduce inefficiencies or vulnerabilities into the system) in order to improve service quality.
- 1.9 **Bank participation.** This program is associated with a Bank strategy of comprehensive support for improving water and sanitation services at the national level, calling for interventions that include this CCLIP (AR-X1013) for the Water and Sanitation Programs for the Buenos Aires Metropolitan Area and Conurbation (2048/OC-AR and 2613/OC-AR), CCLIPs for the Water Supply and Sanitation Program for Small Communities (1895/OC-AR) and for Urban and Suburban Centers (2343/OC-AR and AR-L1162), and the Norte Grande Provinces Development Program: Water Infrastructure (1843/OC-AR and 2776/OC-AR) and the Reconquista River Basin Environmental Sanitation Program (3256/OC-AR). In addition, a technical cooperation operation to prepare Comprehensive Drainage and Flood Control Management Plans (ATN/OC-14213-AR) is currently in execution. These programs address the problems faced by each of the areas in the country that lag furthest behind in access to water and sanitation services, as well as the need for institutional strengthening to ensure that the services are well managed.
- 1.10 **First operation under the CCLIP (2048/OC-AR).** Approved in January 2009 for US\$250 million, it is being financed through a Bank loan of US\$200 million and a local counterpart contribution of US\$50 million. This operation went into effect in July 2009 and was declared eligible in May 2010. To date, the loan proceeds and the local contribution have been disbursed in full, and the disbursement period expires on 31 July 2016. In all, 41 of the 42 planned works have been completed, the exception being the Las Tunas pumping station, which is expected to be completed in May 2017 due to problems arising from poor soil quality in the area.

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<sup>29</sup> According to data from the most recent household survey for Greater Buenos Aires (second quarter of 2015), 13.4% of the conurbation's population was living in poverty and 4.6% in indigence.

<sup>30</sup> Population projections indicate that this region grew on average by 14% between 2001 and 2010.

<sup>31</sup> According to a socioeconomic and environmental study of the Reconquista River basin and supplementary area (AySA 2010), there are 258 settlements in the basin housing 172,396 residents, with an average of 684 people per settlement (see [link](#)).

This work will be finalized by AySA with resources from the local contribution and will be supervised as part of the execution of loan 2613/OC-AR.

- 1.11 **Second operation under the CCLIP (2613/OC-AR).** Approved in November 2011 for US\$250 million, it is being financed through a Bank loan of US\$200 million and local contribution resources of US\$50 million. This operation went into effect in August 2012 and was declared eligible in April 2013. As of June 2016, US\$123.5 million (62%) of the loan has been disbursed and 98% of the loan total has been committed. As of June 2016, there are no more works to be put to bid. In all, 14 of the planned works have been completed and 18 are in execution. The 11 water works were focused on renovating and rehabilitating the water supply systems, reducing unaccounted-for water, building access chambers for the inspection of underground rivers, and rehabilitating and optimizing the San Martín water treatment plant. The 21 sewerage works were focused on expanding the Hurlingham purification plant, building the third section of the west collector in Tigre and the primary system in Benavidez and Pacheco, and building sewer systems in the municipios of Hurlingham, Ituzaingó, and Morón. Considering the degree of progress and commitment of the operation, it is anticipated that the expected outputs and outcomes will be achieved within the current execution and disbursement periods.
- 1.12 **Results achieved.** The works financed through the first and second individual operations under the CCLIP have achieved very satisfactory results, even though the second operation is still in execution. As of late 2015, improvement works at the San Martín water treatment plant had enabled a 9% increase in sustainable average production (raising water production from 2.8 million to 3.05 million m<sup>3</sup>/d, against a final target of 3.2 million m<sup>3</sup>/d for the second program). Furthermore, the system renovation and rehabilitation works have created average water savings of 36,000 m<sup>3</sup>/d, surpassing the final target of 31,000 m<sup>3</sup>/d for the second loan under the CCLIP (15% better than the expected result). Meanwhile, actions to control unaccounted-for water have yielded savings on the order of 108,000 m<sup>3</sup>/d, against a savings target for both programs of 111,000 m<sup>3</sup>/d. The combined results in terms of water production and reductions in unaccounted-for water are equivalent to the daily consumption of some 620,000 users (200,000 households). As a result of the sanitation works, service has been extended to 20,000 new households, which represents adequate progress towards the target of 41,000 connections considering that the bulk of works under the second operation, still in execution, are for this component. Lastly, institutional strengthening activities have included progress in installing monitoring and early warning systems, which enable a rapid operational response to changes in water quality at the source.
- 1.13 **Fulfillment of the CCLIP conditions for the third operation.** The borrower complies with the conditions established in agreement for use of the credit line (AR-X1013) and with the conditions established in document GN-2246-4 for the processing of an individual CCLIP operation. The borrower has been satisfactorily executing<sup>32</sup> the operations under the CCLIP and has complied with the contractual clauses. Moreover, the audited financial statements have been presented promptly and without comments, as too have the midterm evaluation of program

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<sup>32</sup> The operations have been classified as satisfactory in the Progress Monitoring Reports (PMR) and they are expected to attain the agreed-upon targets and performance indicators.

2613/OC-AR ([OEL#6](#)) and final evaluation of program 2048/OC-AR ([OEL#7](#)). In addition, the updated institutional capacity assessment of the executing agency ([OEL#3](#)) confirms the sound position of AySA, and the program is aligned with the Bank's country strategy and is included in the country program (paragraph 1.15). Furthermore, the works proposed for financing under this third loan are based on the priorities identified in the CCLIP, the executing agency is the same as in the previous operations under the CCLIP (paragraph 3.1), and more than 75% of the proceeds corresponding to the previous operations have been committed and more than 50% have been disbursed.

- 1.14 **Lessons learned.** The process of managing the execution challenges of the first and second operations has generated lessons learned for the office that handles IDB loans (paragraph 3.1) and for AySA as a whole (see [link](#)). Some of these lessons relate to the advantages associated with the CCLIP instrument, including the following: (i) by initiating the bidding processes ad referendum, procurement can already be under way by the time the loan becomes eligible; once the loan is approved by the Bank, AySA will initiate the bidding processes for several of the works on a parallel track with the operation's administrative signature and eligibility processes; (ii) conducting project preinvestment studies lowers costs during the execution of works; the studies carried out so far have made it possible to estimate investment costs with a good level of confidence (paragraph 2.7); (iii) projecting a line of costs with the aim of covering cost adjustments and contingencies prevents having to scale back the planned targets; a contingencies item has been included (paragraph 1.22); (iv) by ensuring proper coordination between the various areas of AySA and other institutions related to the works (municipal or environmental permits) and having a risk mitigation plan in place for each of the works, action can be taken to ensure that works start on time and proceed according to schedule (paragraph 2.5); and (v) providing stability to the staff in the loan office and training the largest possible number of AySA employees involved in the process will prevent delays or errors due to lack of knowledge; the loan will finance training activities (paragraph 1.21).
- 1.15 **Strategic alignment.** The operation is consistent with the priority area of intervention "urban sustainability and habitat improvement" in the area of water and sanitation under the Bank's country strategy with Argentina for 2012-2015 (document GN-2687), which aims to increase the coverage of water and sanitation service delivery through investments in infrastructure and improvements in management of service providers. The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is directly aligned with the development challenge of social inclusion and equality, considering that the interventions are focused on expanding and improving water and sanitation services in areas of the conurbation with the highest poverty rates and with the lowest levels of access to public services (paragraph 1.3). The program is aligned with the crosscutting issue of climate change and environmental sustainability, through financing for a wastewater treatment plant and actions aimed at reducing water losses and excess consumption. In addition, the program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-4) through the outputs "households with new or upgraded access to sanitation" and "households with new or upgraded access to drinking water," and it is included in the 2016 Operational Program Report (document GN-2849). Lastly, the program is aligned

with the Strategy on Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5), particularly the priority area of “supporting the construction and maintenance of socially and environmentally sustainable infrastructure, thus enhancing quality of life,” and is consistent with dimensions of success and lines of action under the Water and Sanitation Sector Framework Document (document GN-2781-3), namely, universal access to water and sanitation and improvement in service quality, and social and environmental sustainability.

- 1.16 **Consistency with Bank policies.** The program complies with the conditions of financial sustainability and economic evaluation of the Public Utilities Policy (document GN-2716-4) and is consistent with the principles of this policy. AySA has been covering its operating and maintenance costs and its financial obligations with rate revenue and timely transfers from the national government. In addition, rate adjustment measures were recently approved. Consequently, in the medium term, AySA’s rate revenue is expected to be enough to cover its operating and maintenance costs (paragraph 2.10). The works to be financed are socioeconomically viable (paragraph 2.8). AySA has a subsidized rate, and the Argentine government has a targeted program of access to services for the low-income population (paragraph 1.7); there is adequate institutional organization (policy-setting, regulation, and delivery of service) (paragraph 1.2); and there are accountability mechanisms that foster transparency ([OEL#10](#)).

**B. Objectives, components, and cost**

- 1.17 **Objective.** The objective of the program is to improve and expand water and sanitation services in the Autonomous City of Buenos Aires and municipios of the Buenos Aires Conurbation. The third operation under the line of credit will enhance the reliability of the water treatment and distribution system, reduce physical losses, expand sewerage services, and increase wastewater treatment capacity.
- 1.18 The operation will have the following components: (i) optimization of the water treatment and distribution system; (ii) expansion of the sanitation system; and (iii) business management strengthening. A description of the components follows.
- 1.19 **Component 1 – Optimization of the water treatment and distribution system (US\$113.2 million).** This component includes: (i) rehabilitation and optimization of the San Martín water treatment plant (US\$75 million), in order to optimize the water clarification, alkalization, and reconveyance processes by: (a) improving the settling tanks in Sector A1; (b) upgrading the lime injection system; and (c) lengthening the auxiliary channel for clarified water. This is expected to raise production at the San Martín treatment plant by 50,000 m<sup>3</sup>/d and boost the plant’s efficiency; (ii) renovation of secondary water supply systems (US\$35.2 million) identified as being highly critical (paragraph 1.6), with a view to minimizing physical losses, ensuring continuity of service, and reducing operating and maintenance costs, through four projects to replace asbestos-cement and steel systems in the sectors of Villa Sarmiento, Matanza Norte, Centro Ramos Mejía, and Gerli-Piñeiro, and the renovation of 127 kilometers of water lines, in order to recover a volume of approximately 21,950 m<sup>3</sup>/d; and (iii) metering and consumption (US\$3 million), including the installation of 27 macro-meters and 9,800 micro-meters in five hydraulic sectors—Quilmes, Caballito, Haedo 3 and 4, and Bernal—giving continuity to the plan to control unaccounted-for water and

with the expectation of reducing physical losses in the targeted sectors and saving approximately 5,900 m<sup>3</sup>/d of water.

- 1.20 **Component 2 – Expansion of the sanitation system (US\$234.6 million).** This component includes: (i) expansion of the systems in the municipios of Hurlingham, Morón, and Ituzaingó (US\$89.6 million), through the construction of secondary systems, collectors, and pumping stations in the watershed of the Hurlingham purification plant, and installation of 166 kilometers of sanitation lines, benefiting 18,482 households that lack this service; (ii) construction of the third module of the Norte purification plant (US\$99.2 million), expanding its capacity from 1.8 to 2.7 cubic meters per second, with sufficient capacity to treat the wastewater generated by a population of 300,000 residents. This will make it possible to expand the sewer systems in the municipios of Tigre and Escobar, among others; and (iii) expansion of the systems in the municipio of Escobar (US\$45.8 million), through the construction of 81 kilometers of secondary systems, a collector, and a pumping station in the locality of Ing. Maschwitz, draining toward the Norte purification plant, and benefiting 6,359 households that lack sanitation service.
- 1.21 **Component 3 – Strengthening of business management (US\$8 million).** This includes actions to improve the management and productivity of the service provider by: (i) expanding and upgrading the water quality monitoring system in the River Plate basin; (ii) upgrading the information system for project management; (iii) providing support for skills training for AySA personnel; (iv) supporting the creation of a water and sanitation institute; and (v) updating the territorial plan to address the challenges of adding new areas to the concession.
- 1.22 **Cost and financing.** The cost of this operation is US\$400 million, to be financed with US\$320 million from the Bank's Ordinary Capital and US\$80 million from the local contribution. The following table shows a breakdown of the costs:

**Table I-1 Costs and financing (in US\$ millions)**

Category or component	IDB	Local contribution	Total	%
Administration, supervision, and audits	0	8.0	8.0	2.0
<b>1. Water supply system</b>	<b>86.3</b>	<b>26.9</b>	<b>113.2</b>	<b>28.3</b>
a. Rehabilitation and optimization of the San Martín plant	67.5	7.5	75.0	
b. Renovation of water systems	18.5	16.7	35.2	
c. Metering and consumption	0.3	2.7	3.0	
<b>2. Sanitation system</b>	<b>216.8</b>	<b>17.8</b>	<b>234.6</b>	<b>58.6</b>
a. Ituzaingó, Morón, and Hurlingham systems	82.9	6.7	89.6	
b. Expansion of the Norte plant	89.3	9.9	99.2	
c. Escobar systems	44.6	1.2	45.8	
<b>3. Strengthening of business management</b>	<b>4.0</b>	<b>4.0</b>	<b>8.0</b>	<b>2.0</b>
<b>Financial costs</b>	<b>0</b>	<b>19.0</b>	<b>19.0</b>	<b>4.8</b>
Interest and commitment fee				
<b>Contingencies</b>	<b>12.9</b>	<b>4.3</b>	<b>17.2</b>	<b>4.3</b>
<b>Total costs</b>	<b>320.0</b>	<b>80.0</b>	<b>400.0</b>	<b>100</b>
<b>Percentage</b>	<b>80</b>	<b>20</b>	<b>100</b>	



## C. Key results indicators

- 1.23 The results matrix ([Annex II](#)) describes the expected outputs and outcomes for each component. Table I-2 shows the main indicators. The works will benefit approximately 74,500 people (24,841 households) by providing access to sewer connections, and 300,000 people (100,000 households) by treating wastewater. In addition, by increasing sustainable average production at the San Martín treatment plant by 50,000 m<sup>3</sup>/d and reducing unaccounted-for water by 21,950 m<sup>3</sup>/d, which will be used to cover unmet demand, the works will benefit the equivalent of 370,000 users (120,000 households) with improved water connections (continuous supply).

Table I-2 Key results indicators

Results indicators	Baseline (2016)	Year 3	Year 4	Project completion
Households with sewer system service	0	21,139	24,841	24,841
Households whose wastewater is treated	0		100,000	100,000
Cubic meters per day (m <sup>3</sup> /d) of water recovered through system renovation	0		21,950	21,950
Cubic meters per day (m <sup>3</sup> /d) of sustainable average production at the San Martín plant	3,200,000		3,250,000	3,250,000

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **Modality.** This third operation under CCLIP AR-X1013, too, will be structured as a specific investment program. Startup of the program, once approved, will be supported by the availability of studies and detailed designs for the works to be financed by the program (paragraph 2.7).
- 2.2 **Financing structure.** The Bank's loan will cover 80% of the total cost of the program. The local counterpart contribution will be financed with resources from the borrower. The disbursement and execution periods will be four years, as in the previous loans under the CCLIP (Table II.1 and [OEL#11](#)). The length of these periods is consistent with the procurement schedule; the startup of bidding processes ad referendum before the loan is eligible for disbursement; the satisfactory performance of the executing agency, which has allowed all the works to be committed within the original period;<sup>33</sup> and the lessons learned from the previous operations (paragraph 1.14), based on which the bidding processes are concentrated within the first 18 months.
- 2.3 In accordance with document AB-2990, disbursement of the loan proceeds by the Bank will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months, in all cases from the date of approval of the loan by the Board of

<sup>33</sup> The extensions granted for the prior loans under the CCLIP were justified on the basis of unusual complexity of the works and/or foreign exchange or import restrictions occurring in the past (in the case of the first operation under the credit line).

Executive Directors. These limits may cease to be applicable in the event that the Bank policy requirements regarding such limits have been met, provided the borrower has been notified accordingly in writing. The borrower will guarantee funding of the local counterpart contribution as well as repayment of principal and interest.

**Table II-1 – Disbursement period**

<b>Financing</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Total</b>
<b>IDB</b>	10.65	85.35	64.00	160.00	320.00
<b>Cumulative %</b>	3.3%	30.0%	50.0%	100%	
<b>LOCAL</b>	1.88	21.09	27.75	29.28	80.00
<b>TOTAL</b>	12.53	106.44	91.75	189.28	400.00
<b>Cumulative %</b>				100%	

## **B. Risks**

**2.4 Environmental and social risks.** The proposed operation was classified as a category “B” project ([REL#4](#)) in accordance with the guidelines of the Bank’s Environment and Safeguards Compliance Policy (OP-703). AySA has been satisfactorily meeting the environmental and social commitments assumed under the first two operations of the CCLIP. Since there is no planned need for population resettlement in the areas affected by the projects, the main social impacts may be associated with a reduction in the comfort level of the population due to changes in daily activities necessitated by the works (road accessibility and circulation), as well as with workplace health and safety during construction of the works. The main adverse environmental impacts would also be expected during construction (noise, exhaust, and debris) and to a lesser extent during operation (liquid effluents and waste (sludge)), a phase in which the positive environmental impacts resulting from the water and sanitation works will also become evident. In its efforts to continually improve its environmental and social performance, AySA is developing a set of environmental technical specifications that will be included in the bidding conditions, establishing the minimum requirements for the environmental and social management plans to be prepared by the contractors and monitored by AySA’s environmental office ([REL#4](#)), which will mitigate this potential risk of negative social and environmental impacts in the works construction phase. As a special contractual condition of execution, the borrower will present to the Bank the environmental studies, environmental permits, and evidence that consultations/information workshops have been conducted with regard to the planned works, in accordance with the provisions of the Environmental and Social Management Report (ESMR) ([REL#4](#)).

**2.5 Fiduciary risks.** The risk analysis conducted using the Bank’s sovereign-guaranteed project risk management methodology and the Institutional Capacity Assessment System (ICAS) ([OEL#3](#)) indicates that the risk associated with program execution is low. An assessment of AySA’s institutional capacity was performed, covering programming, administrative organization, personnel administration, administration of goods and services, financial administration, and internal and external control. The evaluation indicates that AySA’s institutional



capacity and development level are satisfactory for executing the program and for subsequent management of the works.

- 2.6 The only risk identified, which is classified as medium, is a potential deviation from the programming of the works (in terms of deadline, scope, and costs) brought about by external actors. To mitigate this risk, AySA plans to: (i) coordinate with participating institutions in the framework of the Planning Agency Advisory Committee (paragraph 3.3), which periodically brings together representatives of AySA and of the municipios under AySA's jurisdiction with a view to streamlining the processing of construction permits, environmental certificates, and land title deeds; and (ii) provide some leeway in the procurement deadlines for works to accommodate potential delays that contractors interested in submitting bids may face in establishing consortiums. In addition, the ICAS report indicates the following areas for improvement: (i) formalize the programming procedures for plans and programs, as well as the respective approval and modification procedures; (ii) update the manuals to reflect recent organizational changes; and (iii) evaluate the possibility of having the internal audit office issue internal control compliance reports.

### **C. Special considerations**

- 2.7 **Technical feasibility.** The proposed projects are a continuation of the lines of work and the priorities identified in the first and second operation under the CCLIP. The projects related to the water production and distribution system are primarily focused on rehabilitation, replacement, and optimization of the existing infrastructure, while the sanitation projects are aimed at meeting the needs to expand sewer systems, including treatment, in areas of the conurbation that lack such service. Added to these projects are relatively minor macro- and micro-metering components aimed at lowering consumption and physical losses and improving business efficiency. The works proposed under the third operation are the result of an evaluation and comparative analysis of the available technological options and reflect a medium- and long-term vision. The projects have been developed in accordance with accepted engineering standards and principles, harnessing the experience acquired during the execution of projects under the two previous operations as well as similar projects executed by AySA with own resources or funds from other sources. The level of progress on the available studies for the planned works makes it possible to estimate the investment costs of each project, including resources to address unforeseen events, with a reasonable degree of confidence. Before submitting the respective bidding terms, AySA will send to the Bank the final designs for the following works: (i) rehabilitation and optimization of the San Martín treatment plant (December 2016); and (ii) Norte purification plant (December 2016). The timetables for execution of the works have taken into account the readiness of the respective bidding terms and the complexity of the various interventions.
- 2.8 **Socioeconomic viability.** A cost-benefit evaluation was performed for the projects based on a comparison of costs and benefits with and without the program. The costs used for the evaluation were incremental investment and operating and maintenance costs valued at efficiency prices. The economic benefits of the sanitation projects were quantified using willingness-to-pay values adjusted as of April 2016 by the income variation index, based on data from the Continuous

Household Survey,<sup>34</sup> and by the wage variation coefficient<sup>35</sup> published by the National Statistics and Census Institute (INDEC) (willingness-to-pay of Arg\$506.50/month for access to the system and environmental willingness-to-pay of Arg\$53.70/month for treatment). These values were calculated using the contingent valuation method by applying socioeconomic surveys from February 2012 and March 2008, respectively. The benefits of the water projects were quantified using a demand curve<sup>36</sup> and through the public works simulator. The results of the analysis show that the program will be socioeconomically viable, with economic internal rates of return above 12% and benefit-cost ratios above 1. The evaluation was supplemented by the corresponding sensitivity analysis ([OEL#1](#)).

- 2.9 **Ability to pay.** The monthly charge for the service was verified as being less than 5% of family income for the program's beneficiary population, based on AySA's current rates. The impact of this charge on average family income was analyzed for each income quintile. Using the average payment for the service, assuming average residential monthly water consumption of 30 cubic meters, and using income distribution information for the areas of influence of the projects, it was shown that payment for water and sanitation services does not exceed 5% of family income. In addition, AySA's rate schedule includes a subsidized rate for poor and vulnerable population segments.
- 2.10 **Financial viability.** The financial analysis used a financial model developed by the Bank and was based on AySA's financial statements for the last three years, historical operating information, and financial projections. The model indicates the following points: (i) the rate adjustment made in April of this year has had a significant impact in terms of improving AySA's financial condition; (ii) the rate restructuring will allow AySA to cover its operating and maintenance expenses from rate revenue starting in the third year of the projection (2018), assuming that rates are systematically updated in real terms in the following fiscal years; and (iii) in the event that rates are not updated as planned, AySA will require current transfers from the national government ([OEL#4](#)). An agreement will be required between the borrower and AySA setting out the borrower's commitment to promptly transfer funds from the national budget to AySA in the event that rate revenue fails to cover administrative, operating, maintenance, and depreciation expenses. As a special contractual condition of execution, the borrower, acting through AySA, will show in the fourth year of program execution that the water supply and sewerage services generate sufficient revenue to cover administration, operation, maintenance, and depreciation expenses.

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<sup>34</sup> <http://www.indec.mecon.ar/bases-de-datos.asp>.

<sup>35</sup> [http://www.indec.mecon.ar/nivel4\\_default.asp?id\\_tema\\_1=3&id\\_tema\\_2=38&id\\_tema\\_3=111](http://www.indec.mecon.ar/nivel4_default.asp?id_tema_1=3&id_tema_2=38&id_tema_3=111).

<sup>36</sup> Based in part on the results obtained in the study Diseño de un régimen tarifario para la concesión de Agua Potable y Desagües Cloacales de la Ciudad de Buenos Aires [Design of a rate structure for the water and sewerage concession in the city of Buenos Aires], conducted by the consulting firm Post Buckley de Argentina S.A. in 2000 and 2001 pursuant to the provisions of Resolution 601/99 issued by the Department of National Resources and Sustainable Development.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Execution arrangements.** The borrower will be the Argentine Republic, and the executing agency will be Agua y Saneamientos Argentinos, S.A. (AySA). As it has done for the previous operations under the CCLIP, AySA will execute the loan through its Office for IDB Loans, which is responsible for managing and coordinating all operational and administrative aspects of loans with the Bank through the following actions: (i) scheduling the operation's activities, identifying the necessary actions for proper execution of the components, and coordinating these actions internally with the various areas and with national, provincial, or municipal agencies as required; (ii) preparing program procurements; (iii) conducting financial administration; and (iv) monitoring and evaluating results. To perform these tasks, AySA's Office for IDB Loans will be comprised of a professional team working full-time on the program, including a coordinator, a financial administration specialist, a procurement specialist, and project managers appointed by the infrastructure office.
- 3.2 **As special contractual conditions precedent to the first disbursement of the loan: (1) the executing agency will present evidence that the current execution plan has been ratified for execution of this loan; and (2) a funds transfer agreement will be signed between the borrower and the executing agency and will include, *inter alia*: (i) the mechanism for transferring the loan proceeds and the counterpart contribution to the executing agency; (ii) the executing agency's commitment to use the funds and carry out the program's activities in accordance with the terms of the loan contract; and (iii) the borrower's commitment to promptly transfer funds from the national budget to AySA in the event that rate revenue fails to cover administrative, operating, maintenance, and depreciation expenses.**
- 3.3 **Coordination of program execution.** AySA's institutional framework includes a mechanism for investment planning coordination in the form of a Planning Agency Advisory Committee.<sup>37</sup> This committee is responsible for coordinating and overseeing the preparation of service expansion and improvement plans and projects, the development of works, the preparation of environmental impact assessments, and the establishment of quality goals in the Autonomous City of Buenos Aires and in the 17 municipios of the Province of Buenos Aires served by AySA ([OEL#14](#)).
- 3.4 **Procurement.** Works, goods, and consulting services will be procured in accordance with the Policies for the procurement of works and goods financed by the Bank (document GN 2349-9) and the Policies for the selection and contracting

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<sup>37</sup> The Advisory Committee is the formal and direct channel between actors and planning tasks. It is the mechanism for gathering information and learning about the social demands in the various jurisdictions. It coordinates service priorities in each jurisdiction based on available resources in the framework of a strategic vision and ensures participation by all actors, creating consensus-based planning. The committee consists of one representative of each of the municipios included in AySA's area of service, the Buenos Aires city government, the Office of the Deputy Secretary for Water Resources (SSRH) of the Ministry of Interior, Public Works, and Housing (MIOPyV), ENOHSA, AySA, and the province of Buenos Aires (see [link](#)).

of consultants financed by the Bank (document GN-2350-9), both of March 2011. All procurements must be included in the procurement plan approved by the Bank through the Procurement Plan Execution System and adhere to the methods and ranges indicated therein, as described in the fiduciary agreements and requirements ([Annex III](#)). The executing agency and the Bank have agreed on a procurement plan itemizing procurements for the first 18 months of execution ([REL#5](#)).

- 3.5 Plans call for advance procurement of a study on AySA's territorial plan, using single-source selection. This study will be commissioned on a single-source selection basis to provide continuation of service, in view of a prior agreement between AySA and the University of Buenos Aires on a previous study of this issue and which now needs to be updated and expanded to include the new *partidos* that will join AySA's area of service. The foregoing is in accordance with paragraph 3.10 (a) of document GN-2350-9.
- 3.6 **Advances of funds.** Disbursements will be made using the advance of funds modality, based on actual liquidity needs, for a maximum period of six months, in accordance with the investment timeline and the required flow of funds, as set forth in the revised version of the Financial management policy for IDB-financed projects (OP-273-6) and in the second revised version of the Operational guidelines for financial management of IDB-financed projects (OP-274-2), as described in the fiduciary agreements and requirements. In accordance with the evaluation of the supporting documentation presented by the executing agency, the recommendation for this operation is to use a minimum percentage of 65% for replenishing advances of funds ([Annex III](#)), inasmuch as: (i) in the first operation under this CCLIP, program AR-L1080, which uses the revolving fund method, the average percentage of justification for each request is 65%; (ii) in the second loan, AR-L1122, the percentage of disbursed funds that had to be justified was reduced from 80% to 65%; (iii) the large number of different types of works involves many payment contingencies that are not easily covered by the 20% balance on an advance; (iv) the execution mechanism is complex and the 20% margin on an advance leaves little flexibility for managing payments; and (v) the flows and processes of the executing agency's administrative and financial systems involve extended periods. Use of this percentage is consistent with the Operational guidelines for financial management of IDB-financed projects (OP-274-2).
- 3.7 **Audits and inspection.** In order to have flexibility and the ability to adjust the loan portfolio to reflect the auditing capacity of the National Audit Office (AGN) at any given time, both the AGN and independent firms will be contractually eligible to perform program audits. The audited financial statements for the program will be sent to the Bank no later than 120 days after the close of each fiscal year.

**B. Summary of results monitoring arrangements**

- 3.8 Monitoring will be carried out using the Bank's supervision instruments, which include: the program execution plan (PEP), the procurement plan, the results matrix, the progress monitoring report (PMR) ([OEL#5](#)), and the annual work plan (AWP) ([REL#2](#)). AySA will submit semiannual reports, describing progress achieved as set forth in the AWP, the results of execution of the activities, and an action plan for the subsequent six-month period.

- 3.9 Monitoring and evaluation arrangements have been agreed upon, including an information gathering plan and its budget ([REL#3](#)). AySA will be responsible for monitoring and evaluation of the projects, for which it may contract independent consulting firms agreed upon with the Bank. An independent midterm evaluation, which will include environmental and social considerations, will be conducted during program execution at 24 months or when 60% of the resources have been committed. A final evaluation will be delivered within 30 days following program completion and will include an ex post socioeconomic evaluation of a set of projects under the CCLIP to be agreed upon by the executing agency and the Bank.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Development Challenges & Cross-cutting Themes		-Social Inclusion and Equality -Climate Change and Environmental Sustainability		
Regional Context Indicators				
Country Development Results Indicators		-Households with new or upgraded access to drinking water (#) -Households with new or upgraded access to sanitation (#)*		
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix		GN-2687	Increase the potable water coverage in the Buenos Aires Corridor and in Norte Grande; and Increase sanitation coverage in the Buenos Aires Urban Corrido and in Norte Grande.	
Country Program Results Matrix		GN-2849	The intervention is included in the 2016 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Highly Evaluable	Weight	Maximum Score
		9.2		10
3. Evidence-based Assessment & Solution		10.0	33.33%	10
3.1 Program Diagnosis		3.0		
3.2 Proposed Interventions or Solutions		4.0		
3.3 Results Matrix Quality		3.0		
4. Ex ante Economic Analysis		10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0		
4.2 Identified and Quantified Benefits		1.5		
4.3 Identified and Quantified Costs		1.5		
4.4 Reasonable Assumptions		1.5		
4.5 Sensitivity Analysis		1.5		
5. Monitoring and Evaluation		7.5	33.33%	10
5.1 Monitoring Mechanisms		2.5		
5.2 Evaluation Plan		5.0		
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Low		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		B		
IV. IDB's Role - Additionality				
The project relies on the use of country systems				
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Accounting and Reporting. Procurement: Information System.		
Non-Fiduciary	Yes	Environmental Assessment National System.		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality				
Labor				
Environment				
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project				
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan				

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The operation's general objective is to improve and expand potable water and sanitation in the City of Buenos Aires and the greater urban area of Buenos Aires. This is the third operation of the credit line that, more specifically, will improve the reliability of the system of purification and distribution of water, reduce losses, expand sewer service and expand the capacity of wastewater treatment.

The project presents a strong justification of the problem and its causes on the basis of empirical evidence. It also presents rigorous evidence on the effectiveness of similar interventions in the same country context.

The results matrix presents indicators that are SMART and that have baseline and goal values. The economic analysis of the operation is complete and details the assumptions used to calculate program benefits. The Monitoring and Evaluation Plan proposes an ex post economic evaluation. It is not considered that this evaluation methodology, given the existing evidence, will help to close knowledge gaps. The risks identified are reasonable and include mitigation measures and indicators for monitoring.

## RESULTS MATRIX<sup>1</sup>

<b>Project name</b>	Water and Sanitation Program for the Buenos Aires Metropolitan Area and Conurbation – Third operation under CCLIP AR-X1013
<b>Objective</b>	The objective of the program is to improve and expand water and sanitation services in the Buenos Aires metropolitan area and conurbation.

### Expected Results

Outcome indicators	Unit of measure	Baseline	Base-line year	Year 1	Year 2	Year 3	Year 4	End of project	Comments / means of verification
<b>Outcome 1: Water service improved</b>									
Average sustainable production by the San Martín water treatment plant.	m <sup>3</sup> /day	3,200,000	2016	3,200,000	3,200,000	3,200,0000	3,250,000	3,250,000	<p><b>Comments:</b> Reported as a value measured in m<sup>3</sup>/day.</p> <p>The objective is to produce the target values on a sustainable basis, i.e., in compliance with the required standards.</p> <p><b>Means of verification:</b> San Martín plant records, reported from the Plant Manager's Office.</p> <p><b>Responsible entity:</b> Executing agency - AySA.</p>
Percentage of time during which the water produced by the San Martín plant complies with the standard under the regulatory framework for saturation pH.	%	93%	2016	93%	93%	93%	95%	95%	<p><b>Comments:</b> The indicator measures the percentage of time during which the plant's outgoing water maintains a pH of +/- 1 with respect to the saturation pH. This measurement helps to avoid corrosion in the pipes and safeguards water quality.</p> <p><b>Means of verification:</b> San Martín plant records, reported from the Plant Manager's Office.</p> <p><b>Responsible entity:</b> Executing agency - AySA.</p>

<sup>1</sup> The targets set in the Results Matrix will be reviewed and adjusted during the launch workshop and as a function of the expected outcomes and outputs for the detailed designs.

Outcome indicators	Unit of measure	Baseline	Base-line year	Year 1	Year 2	Year 3	Year 4	End of project	Comments / means of verification
<b>Outcome 2: Sewer service improved</b>									
Number of households in the Norte basin whose wastewater is treated in the Norte plant	Number of households	200,000	2016	0	0	0	300,000	300,000	<p><b>Comments:</b> Total households with access to system for discharging wastewater to the Norte treatment plant. These households are in the <i>partido</i> of Tigre.</p> <p><b>Means of verification:</b> Executing agency reports based on reports from AySA's Regional Office, new users. Targets are annual and cumulative.</p> <p><b>Responsible entity:</b> Executing agency - AySA.</p>
Number of households with sewer service in Morón, Ituzaingó, and Hurlingham	Number of households	63,385	2014	0	69,985	77,985	81,867	81,867	<p><b>Comments:</b> The indicator measures new households with cleared sanitation service that are listed in AySA's business register and pay for the service. Baseline calculated from data on the number of residents with service converted to household equivalents (3 people per household) based on information from the CNPV 2010 INDEC- population as of 2010 in census blocks unserved in 2014.</p> <p><b>Means of verification:</b> Executing agency reports based on reports from AySA's Regional Office. Targets are annual and cumulative.</p> <p><b>Responsible entity:</b> Executing agency - AySA.</p>
Number of households with sewer service in the <i>partido</i> of Escobar.	Number of households	10,353	2014	0	12,903	16,712	16,712	16,712	



Outcome indicators	Unit of measure	Baseline	Base-line year	Year 1	Year 2	Year 3	Year 4	End of project	Comments / means of verification
<b>Outcome 3: AySA operating performance improved</b>									
Daily water system losses in the <i>partidos</i> of Morón, La Matanza, and Avellaneda	m <sup>3</sup> /day	24,145	2016	0	0	0	2,195	2,195	<p><b>Comments:</b> The indicator is measured based on the value of the theoretical physical loss associated with the existing material (in m<sup>3</sup>/km/day). This value considers a reduction in losses only due to the elimination of leaks. It is calculated semiannually and annually based on progress in completing the works. The value reported is the daily annual average. Losses are expected to be reduced by 21,950 m<sup>3</sup>/day (24,145 – 2,195).</p> <p><b>Means of verification:</b> Executing agency reports based on reports from AySA's Regional Office.</p> <p><b>Responsible entity:</b> Executing agency - AySA.</p>
Number of annual system repairs in the <i>partidos</i> of Morón, La Matanza, and Avellaneda	Repairs/km/year	11	2015	16	11	8	6	6	<p><b>Comments:</b> The indicator measures the number of repairs required in an area of systems to be renovated. Conceptually, as the condition of the systems is upgraded, the amount of repairs needed is smaller.</p> <p><b>Means of verification:</b> Executing agency reports based on reports from AySA's Regional Office.</p> <p><b>Responsible entity:</b> Executing agency - AySA.</p>

Outcome indicators	Unit of measure	Baseline	Base-line year	Year 1	Year 2	Year 3	Year 4	End of project	Comments / means of verification
Daily consumption in five hydraulic sectors: Quilmes Center, Caballito, Haedo 3, Haedo 4, and Bernal	m <sup>3</sup> /day	27,019	2015		24,317	24,317	24,317	24,317	<p><b>Comments:</b> The indicator measures the drop in consumption stemming from the effect on users of knowing that their service is being measured. Once the meters have been installed, the consumption value will be reviewed and taken as the new baseline. Hydraulic sector is defined as an urban sector that is isolated in order to perform micro- and macro-metering.</p> <p><b>Means of verification:</b> Executing agency reports based on reports from AySA's Regional Office. The measurement is theoretical, and the formula is <math>(1 - (\text{annual average consumption} / \text{annual baseline consumption})) * 100</math>.</p> <p><b>Responsible entity:</b> Executing agency - AySA.</p>
Daily losses in the hydraulic sectors of Quilmes Center, Caballito, Haedo 3, Haedo 4, and Bernal	m <sup>3</sup> /day	13,950	2015	0	12,475	11,000	8,050	8,050	<p><b>Comments:</b> The indicator measures the reduction in losses due to system sectorization through macro- and micro-metering and by regulating pressures in the five targeted hydraulic sectors. The 40% final target represents a savings of 5,900 m<sup>3</sup>/day.</p> <p><b>Means of verification:</b> Executing agency reports based on reports from AySA's Regional Office. The measurement is theoretical, and the formula is <math>(\text{annual overall loss for the period} / \text{annual baseline loss}) * 100</math>.</p> <p><b>Responsible entity:</b> Executing agency - AySA.</p>

Component 1: Optimization of the water treatment and distribution system									
OUTPUTS:	Estimated cost (US\$)	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	End of project	Comments/ Means of verification
San Martín treatment plant rehabilitated and optimized	75,000,000	rehabilitated plant	0	0	0	0	1	1	<b>Means of verification:</b> Provisional acceptance certificates and AySA onsite supervision reports. <b>Responsible entity:</b> Executing agency - AySA.
Distribution systems in Villa Sarmiento, Matanza North, Ramos Mejía center, and Gerli-Piñeiro rehabilitated and improved	35,221,333	km	0	15	72	30	10	127	<b>Comments:</b> Length of pipes renovated. <b>Means of verification:</b> Provisional acceptance certificates and AySA onsite supervision reports.
Micro- and macro-meters in hydraulic sectors Quilmes center, Caballito, Haedo 3, Haedo 4, and Bernal	2,978,637	sectors	0	0	5			5	<b>Comments:</b> The hydraulic sectors are Quilmes center, Caballito, Haedo 3, Haedo 4, and Bernal. <b>Means of verification:</b> Provisional acceptance certificates and AySA onsite supervision reports. Internal reports. <b>Responsible entity:</b> Executing agency - AySA.
OUTPUTS:	Estimated cost (US\$)	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	End of project	Comments/ Means of verification
Component II: Expansion of the sanitation system									
Sewer drainage system in Escobar built	45,830,552	system	0	0	0	0	1	1	<b>Means of verification:</b> Provisional acceptance certificates and AySA onsite supervision reports. <b>Responsible entity:</b> Executing agency - AySA.
Norte plant expanded	99,225,000	plant	0	0	0	0	1	1	
Sewer network system in Hurlingham, Ituzaingó, and Morón expanded	89,556,561	system	0	0	0	0	1	1	<b>Comments:</b> Works to renovate, rehabilitate, optimize, and expand the system of networks, collectors, pumping stations, and treatment plants identified in the program intervention area. <b>Means of verification:</b> Executing agency reports based on reports by the service operators. <b>Responsible entity:</b> PCU – ENOHS.

OUTPUTS:	Estimated cost	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	End of project	Comments/ Means of verification
<b>Component III: Institutional strengthening</b>									
Monitoring stations to measure water quality in the River Plate basin installed and equipped	1,400,000	stations	0		6	1		7	<b>Comments:</b> A new water quality monitoring station and supplementary equipment for six existing monitoring stations. <b>Means of verification:</b> Executing agency report on equipment installation. <b>Responsible entity:</b> Executing agency - AySA.
Information system for project management at the Engineering and Projects Office designed	200,000	system	0		1			1	<b>Means of verification:</b> Executing agency reports on the state of development of the system based on Engineering and Projects Office reports. <b>Responsible entity:</b> Executing agency - AySA.
Individuals trained by the professional training program	1,800,000	individuals	0	37	100	100	50	287	<b>Comments:</b> Program designed for AySA senior and middle management and interested personnel. <b>Means of verification:</b> Executing agency reports. <b>Responsible entity:</b> Executing agency - AySA.
Instituto Universitario del Agua y del Saneamiento [University Institute of Water and Sanitation] set up and equipped.	4,000,000	equipped institute	0				1	1	<b>Comments:</b> The plan is to build and to install equipment in the space allocated by AySA. <b>Means of verification:</b> Construction progress certificate and certification of progress on equipment procurement and installation. <b>Responsible entity:</b> Executing agency - AySA.
Territorial plan updated (with a view to adding new areas to the concession)	600,000	plan	0		1			1	<b>Comments:</b> This refers to an update of the study conducted by AySA through a contract with the UBA School of Law. <b>Means of verification:</b> Executing agency reports based on reports by the internal area leading the project. <b>Responsible entity:</b> Executing agency - AySA.

CRF output indicator	Unit of measure	Base-line	Baseline year	Year 1	Year 2	Year 3	Year 4	End of project	Comments / means of verification
Households with new or improved water supply	Number of households	0	2016	0	0	120,000		120,000	Since this is an integrated and growing water system, water volumes are fungible in the sense that, at the geographic limits of the system, they may be assigned either to newly added users or to satisfy unmet demand from existing users. In the case of the evaluated water project, it has been decided to use the newly generated volume to cover unmet demand. Using the new supply to expand service would have involved an analysis for which no information exists. For the large volumes required for service expansion, commercial operation of the Juan Manuel de Rosas plant during execution of this project will free up significant volumes in the northern area of the conurbation, which can serve to reinforce the western area with supply from the San Martín plant. For this reason, this output cannot be attributed to the project.

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Argentina

Project number: AR-L1195

Name: Water and Sanitation Program for the Buenos Aires Metropolitan Area and Conurbation

Executing agency: Agua y Saneamientos Argentinos S.A. (AySA)

Prepared by: Brenda Álvarez Junco (FMP/CAR) and David Ochoa (FMP/CAR)

### I. EXECUTIVE SUMMARY

- 1.1 This is the third operation under the Conditional Credit Line for Investment Projects (CCLIP) AR-X1013 approved by the Bank's Board of Executive Directors on 5 November 2008 for investment projects of up to US\$720 million. The area of influence of this loan is the Autonomous City of Buenos Aires and the 17 municipios of the Buenos Aires Conurbation.
- 1.2 During program preparation, the Bank conducted an institutional capacity assessment for the program using the Institutional Capacity Assessment System (ICAS) methodology. An assessment of AySA's institutional capacity was performed, covering programming, administrative organization, personnel administration, administration of goods and services, financial administration, and internal and external control. The evaluation indicates that AySA's institutional capacity and development level are satisfactory for executing the program and for subsequent management of the works.
- 1.3 The program does not include financing from other multilateral institutions.
- 1.4 **Fiduciary context of the executing agency:** AySA holds a concession for water and sanitation services, operating in an area defined as the Autonomous City of Buenos Aires and 17 *partidos* in the Buenos Aires Conurbation<sup>1</sup> in accordance with the provisions that comprise the regulatory framework for these services. AySA will execute the program within its current organizational structure, internally coordinating and supervising all technical and operational activities through its Office for IDB Loans, which includes a technical unit, a programming and control unit, and an administrative unit, as it has been doing with programs AR-L1080 and AR-L1122.

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<sup>1</sup> With respect to water and sewerage services, the area includes the Autonomous City of Buenos Aires and the *partidos* (municipios) of Almirante Brown, Avellaneda, Esteban Echeverría, La Matanza, Lanús, Lomas de Zamora, Morón, Hurlingham, Ituzaingó, Quilmes, San Fernando, San Isidro, San Martín, Tres de Febrero, Tigre, Vicente López, and Ezeiza.

- 1.5 Certain offices and departments within AySA are participating directly in program execution: the finance and procurement office and its financial division and procurement and warehousing division; the infrastructure office and its engineering and projects, contracts and management control, and works divisions; and the human resources, training, development and internal communications, and health and safety office. Certain offices participate indirectly as part of their specific responsibilities: the technical and financial planning office; technical and technology development office; community development office; environment office; legal affairs office; and internal audits office.
- 1.6 **Fiduciary risk evaluation and mitigation measures.** The institutional capacity assessment of the execution unit conducted using the ICAS tool yielded the following opportunities for improvement: (a) formalize identified programming procedures, such as manuals, formats, models, and methodologies for preparing plans and programs, as well as the respective approval and modification procedures; (b) update the manuals to reflect recent changes in authorities at the national level as well as internal organizational changes; and (c) analyze the possibility of having the internal audit office issue reports showing compliance with the requirements described in each of the five internal control components based on the COSO approach, and formalize internal procedures for the management of external audit services.
- 1.7 The PRM analysis did not identify any medium or high financial risk.

## **II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT**

- 2.1 To streamline contract negotiations by the project team, below are the agreements and requirements to be considered in the special provisions or in the sole annex, as the case may be. These agreements and requirements may be updated or modified during program execution, if applicable, following delivery of the relevant documentation and approval by the Bank.
- 2.2 **Disbursement management:** The recommendation for this operation is to use a minimum percentage of 65% for replenishing the advances of funds. This level of justification for requests by the execution unit is based on the following:
- In the first operation under this CCLIP, program AR-L1080, which uses the revolving fund method, the average level of justification for each request is 65%.
  - Program AR-L1122 uses the advances of funds method, for which the executing agency requested and obtained a reduction in the percentage of disbursed funds that had to be justified from 80% to 65%.
  - Executing a large number of different types of works involves many contingencies, and a 20% balance in advances of funds is too small a margin to address potential certifications of, or financial advances for, civil works.
  - The execution mechanism is complex.
  - The flows and processes of the executing agency's administrative and financial systems involve extended periods.

- 2.3 To determine the equivalent amount in the disbursement or approval currency of an eligible expenditure incurred in the borrower's local currency, the exchange rate to be used for purposes of rendering accounts and justifying expenditures will be the exchange rate in effect on the date of conversion from the approval currency or disbursement currency to the borrower's local currency.
- 2.4 In order to have flexibility and the ability to adjust the loan portfolio to reflect the auditing capacity of the National Audit Office (AGN) at any given time, it is recommended that both the AGN and independent firms be contractually eligible to perform program audits.

### III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

#### A. Procurement execution

- 3.1 The fiduciary agreements and requirements for procurements establish the applicable provisions for carrying out all procurements planned under the operation.
- 3.2 The policies for the procurement of works and goods financed by the Inter-American Development Bank (document GN-2349-9) of March 2011 and the policies for the selection and contracting of consultants financed by the Inter-American Development Bank (document GN-2350-9) of March 2011 will apply. In this regard, the procurement processes have been simplified to ensure the requisite operational responsiveness while taking into account the need for transparency, probity, and legitimacy in the use of resources.
- 3.3 Of the country systems approved by the Bank, the information system will be used.
- 3.4 **Procurement of works, goods, and nonconsulting services.** Works, goods, and nonconsulting services<sup>2</sup> arising under the program and subject to international competitive bidding (ICB) will be procured using the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be executed using national bidding documents agreed upon with the Bank. The program sector specialist is responsible for reviewing the technical specifications for procurement during the preparation of selection processes. The procurement plan submitted by the executing agency identified the selection processes to be conducted on a single-source basis.
- 3.5 **Selection and contracting of consultants:** Consulting service contracts arising under the program will be executed using the standard request for proposals issued by the Bank. The program sector specialist is responsible for reviewing the terms of reference for the contracting of consulting services. The procurement plan submitted by the executing agency identified the selection processes to be conducted on a single-source basis.
- 3.6 **Selection of individual consultants.** Individual consultants will be selected on the basis of their qualifications to do the work, based on a comparison of the qualifications of at least three candidates. The program sector specialist is

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<sup>2</sup> Policies for the procurement of works and goods financed by the Inter-American Development Bank (document [GN-2349-9](#)), paragraph 1.1: Nonconsulting services are treated as goods.



responsible for reviewing the terms of reference for the contracting of consulting services. In cases of service contracts, the consultants will submit a midterm or final report as the executing agency requires. For contract renewal purposes, approval of the performance evaluation as satisfactory by the relevant authorities will be sufficient. The evaluation will be performed annually and only once in order to facilitate its approval by the respective authorities. The procurement plan submitted by the executing agency identified the selection processes to be conducted on a single-source basis.

- 3.7 **Training.** While the institutional capacity-building component calls for the contracting of training services, these services have not been identified as of the date of preparation of the present documents. However, the procurement plan is expected to describe procurements associated with the program's components that include training and they will be contracted as consulting or nonconsulting services.
- 3.8 **Recurrent expenditures.** Recurrent or operating and maintenance expenses required during the life of the program will include: per diems, traveler's insurance, office lease, supplies, and expenses, and other costs involved in the day-to-day operation of the program, which will be financed by the program under the annual budget approved by the Bank. Recurrent expenses also include the cost of consultants hired to assist the executing agency during the program execution period. However, operating expenses do not include salaries for government employees. Recurrent expenses include items such as: auditor's fees, taxes on debits and credits in checking accounts, bank account maintenance fees, stamp taxes on purchase orders, publication of bid notices, and contracted supervision.
- 3.9 **Advance procurement.** Plans call for advance procurement of a study on AySA's territorial plan in the framework of an agreement entered into between AySA and the University of Buenos Aires. Since it constitutes a continuation of service, this procurement will be carried out using single-source selection in accordance with paragraph 3.10 (a) of document GN-2350-9, for an amount approximately equivalent to US\$600,000.

**Table of thresholds (US\$ thousands)**

Works			Goods			Consulting services	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International publicity	Shortlist 100% national
≥5,000,000	<5,000,000 ≥350,000	< 350,000	≥ 500,000	<500,000 ≥100,000	<100,000	>200,000	<500,000

**Thresholds for ex post review**

Works	Goods	Consulting firms	Individual consultants
<10,000,000	<500,000	<500,000	<50,000

#### Main procurements

Activity	Type	Estimated date	Estimated amount US\$ thousands
<b>Work</b>			
Norte plant expansion - Third module 300,000 residents	ICB		99,225,000.00
Ituzaingó - Sewer system stage 2 - Los Cardales and others	ICB		12,560,400.00
Settling tanks Sector A1. First stage	ICB		35,000,000.00
Limewater system	ICB		30,000,000.00

#### B. Procurement supervision

- 3.10 Procurement will be supervised on an ex post basis, with the exception of ICB, pursuant to the aforementioned thresholds, contracting of consulting firms, and single-source selection, if any, which will be supervised ex ante. Ex post review visits will be made every 12 months. Ex post review reports will include at least one physical inspection visit, selected from procurements subject to ex post review. At least 10% of the reviewed contracts will be physically inspected during the program.
- 3.11 The thresholds for ex post review are based on the executing agency's fiduciary capacity for execution and may be modified by the Bank to the extent of any change in such capacity.

#### C. Special provisions

- 3.12 The provisions of documents GN-2349-9 and GN-2350-9 concerning prohibited practices (lists by multilateral organizations of ineligible firms and individuals) will apply.

#### D. Records and files

- 3.13 AySA will maintain a central filing system with the respective procedures and safeguards, and will ensure that the files for each procurement are duly collated, organized, and filed.

### IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

#### A. Programming and budget

- 4.1 The Office for IDB Loans is responsible for preparing and programming the annual budget and for performing all procedures aimed at consolidating the annual budget for approval. As the need arises to expand or reallocate budget items, the executing agency will request the changes and facilitate the process for their approval. Budgetary credits will be executed through quarterly commitment and monthly accrual amounts, which are allocated by the National Budget Office (Ministry of Treasury and Public Finance).
- 4.2 No problems are anticipated in terms of budget management, timeliness of local counterpart contribution, or system delays affecting execution.

**B. Treasury and disbursement management**

- 4.3 Since this program is cofinanced with Bank resources, the national treasury will transfer the local counterpart funds to the executing agency by depositing them in an account opened for the program to be used exclusively for this loan.
- 4.4 Disbursements will be made on the basis of a detailed financial plan, a template of which has been agreed upon with the Ministry of Treasury and Public Finance and the Cabinet Office.

**C. Accounting, information systems, and reporting**

- 4.5 The executing agency will use UEPEX as its financial management system. Cash-basis accounting will be used and the International Financial Reporting Standards will be followed when applicable in accordance with established national criteria. The following financial reports will be required: (i) financial execution plan for up to 180 days following a request for an advance of funds; (ii) audited annual financial statements for the program; and (iii) other reports as required by the fiduciary specialists.

**D. Internal control and external audits**

- 4.6 AySA's internal audits are performed through the Internal Audit Office, which reports directly to the AySA board of directors.

**E. External control: external financial audits and project reports**

- 4.7 In 2011, the Bank completed a diagnostic assessment of government audit practices by the National Audit Office (AGN). This assessment, performed in accordance with Bank guidelines to determine the degree of development of the public finance management systems, concluded by validating the AGN as project auditor. Programs AR-L1080 and AR-L1122 are being audited through the AGN. However, in order to have flexibility and the ability to adjust the loan portfolio to reflect the auditing capacity of the AGN at any given time, it is recommended that both the AGN and independent firms be contractually eligible to conduct program audits.
- 4.8 Audits will be based on the new terms of reference prepared by the Bank, version 2014.

**F. Financial supervision<sup>3</sup>**

- 4.9 The initial financial supervision plan is based on risk and fiduciary capacity assessments conducted on the basis of on-site and desk reviews scheduled for the program and includes the scope of operational, financial, and accounting activities; compliance and legal considerations; frequency; and identification of responsible parties.

**G. Execution mechanism**

- 4.10 The Office for IDB Loans, which reports to the Administration, Finance, and Procurement Office, is the unit within AySA that is responsible for coordinating

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<sup>3</sup> See Financial Management Guide for IDB-financed Projects, revised version (document OP-273-6), Annex I, Application of Financial Management Principles and Requirements, Requirement 4: Financial Supervision.

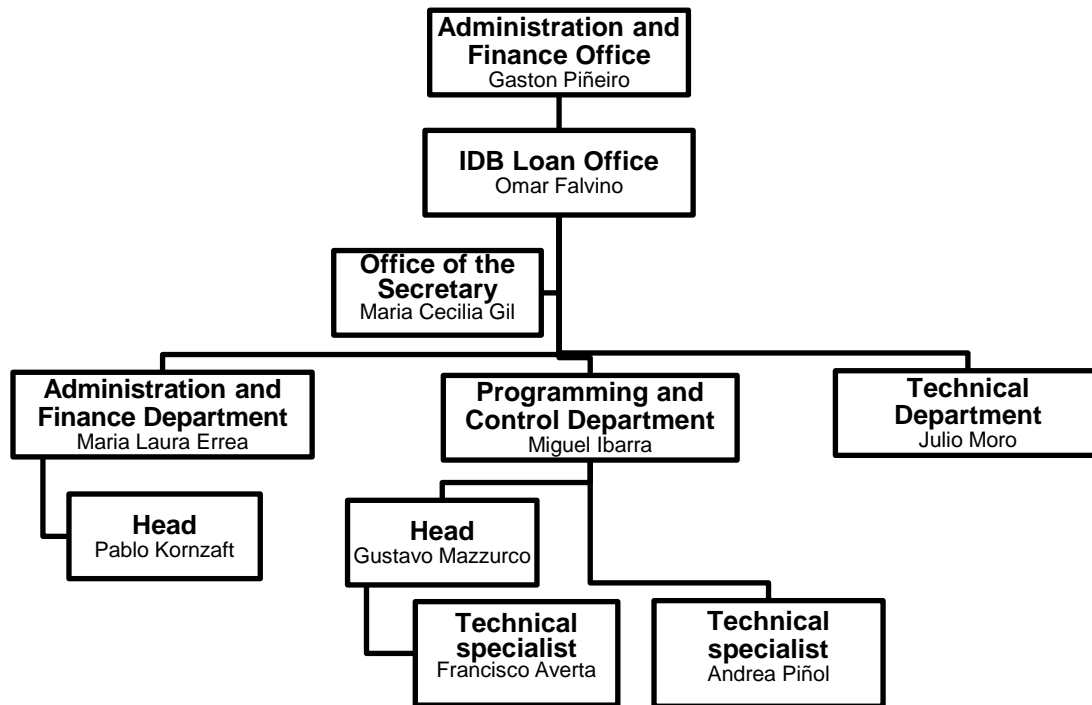
and managing all operational and administrative aspects of loans financed by the Bank.

4.11 Its duties are:

- Supervise overall program operations, maintaining relations with the authorities at the Ministry of the Interior, Public Works, and Housing, the Ministry of Treasury and Public Finance, and the Bank.
- Report to AySA's Office of Administration and Finance and General Director's Office on the execution of the program cycle and on potential risks, proposing solution alternatives in the event of problems.
- Ensure proper program execution, focusing on achieving the strategic outcomes of the operation.
- Perform periodic reviews of progress in program execution, proposing actions aimed at ensuring the achievement of the strategic objectives of each component and the loan contract.
- Verify the degree of fulfillment of the contractual obligations.
- Ensure proper compliance with the applicable loan contract procedures for execution of the relevant component in terms of procurement, contracting of consultants, and disbursements.
- Keep proper statistical and accounting records for the program.
- Prepare and present the following to the Bank authorities for approval: periodic progress reports, financial statements for the program and AySA, disbursement requests, supporting documentation for advances of funds, and background and documents corresponding to procurement that require a no objection.
- Direct and coordinate the tasks of the personnel assigned to the office.
- Drive completion of the activities planned in the program monitoring reports.

4.12 The structure and composition of the Office for IDB loans is as follows:

**ORGANIZATIONAL CHART**



H. Other financial management agreements and requirements: N/A.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/16

Argentina. Loan \_\_\_\_/OC-AR to the Argentine Republic. Water and Sanitation Program for the Buenos Aires Metropolitan Area and Conurbation. Third Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) AR-X1013 approved by Resolution DE-137/08

The Board of Executive Directors

RESOLVES:

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 contract or contracts as may be necessary the Argentine Republic, as Borrower, for the purpose of granting it a financing aimed at cooperating in the execution of a water and sanitation program for the Buenos Aires metropolitan area and conurbation, which constitutes the third individual operation under the Conditional Credit Line for Investment Projects (CCLIP) AR-X1013 approved on 5 November 2008 by Resolution DE-137/08. Such financing will be in the amount of up to US\$320,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_ \_\_\_\_\_ 2016)