

Integrated Fiduciary Systems Assessment

BUENOS AIRES WATER SUPPLY AND SANITATION FOR VULNERABLE AREAS PROGRAM (P172689)

The World Bank



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1. Conclusions

1.1 Reasonable Assurance

1. The Procurement and Financial Management (FM) systems' capacity and performance, with the implementation of the proposed mitigating measures and agreed actions to strengthen the systems (which are reflected in the Program Action Plan, PAP), are adequate to provide reasonable assurance that the Program funds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.

1.2 Risk Assessment

2. The overall integrated fiduciary risk rating is considered Substantial. The key fiduciary risks to the development outcomes of the Project that underpin the Substantial risk rating are as follows: (i) unfamiliarity of the Borrower and the main implementing entity, *Agua y Saneamientos Argentinos* (AySA) with the Program for Results (PforR) Instrument; (ii) the risk of awarding a contract to firms and/or individuals debarred or suspended by the Bank; (iii) lack of an effective procurement-related complaints procedure; (iv) exchange rate pressures that pose a risk that the amount of Program Expenditures may be insufficient to cover the withdrawn loan balance; (v) AySA's dependence on the transfers from the National State for the execution of the PMOEM; and (vi) specific arrangements that will need to be put in place to produce the Program Annual Financial Statements.
3. The proposed systems-and capacity-strengthening and/or mitigation measures, to address the above risks include the following: (i) close implementation support to be provided by the Bank's fiduciary teams, coupled with the preparation of a Program Operations Manual (POM); (ii) a) the external auditors' Terms of Reference (TOR) will include a requirement to review Program expenditure for ineligible contracts; b) eligibility verification to ensure that any person or entity debarred or suspended by the Bank or by another multilateral institution with which the Bank has signed a cross debarment agreement is not awarded a contract under or otherwise allowed to participate in the Program during the period of such debarment or suspension; (iii) preparation and implementation of a clause in the bidding documents on the handling of complaints, which includes a detailed description of the procedure through which a timely and fair revision of the complaint is ensured; (iv) review of the semesterly IFRs and accounting conventions used to prepare IFRs, to ensure Program Expenditures are on track and; (v) close monitoring and coordination to ensure the necessary budgetary support is provided by the National Government; and (vi) close implementation support to be provided by the Bank to help establish the arrangements to produce the Program Annual Financial Statements.

1.3 Procurement Exclusions

4. There are no potential high-value contracts identified under the Program. The proposed Program is not expected to finance any contract at or above prevailing Operations Procurement Review Committee (OPRC) thresholds considering the estimated activity costs under Substantial risk, which at the time are at minimum of (i) US\$ 75 million for works; (ii) US\$ 50 million for goods, information technology and non-consulting services; and (iii) US\$ 20 million for consulting

services.

2. Scope

2.1 Implementing Agency

5. AySA¹ is the concessionaire responsible for providing Water Supply and Sanitation Services (WSS) for the residents of the *Ciudad Autónoma de Buenos Aires* (CABA) and 26² municipalities in the Province of Buenos Aires (PBA). The Program will support the implementation of highly relevant areas of AySA's Plan for Improvement, Operation, Expansion and Maintenance of Services (*Plan de Mejoras, Operación, Expansión y Mantenimiento de los Servicios, PMOEM*) 2019-2023 and its next version covering the period 2024-2028. The purpose of the PMOEM is to ensure the maintenance, improvement, performance and operation throughout the regulated area of the systems necessary for the provision of the WSS services.
6. The PMOEM is prepared by AySA and approved by the Secretariat of Infrastructure and Water Policy (*Secretaría de Infraestructura y Política Hídrica, SIPH*³) after review by the Planning Agency (*Agencia de Planificación, APLA*). APLA is a self-governing public body, in charge of reviewing and co-ordinating the expansion and improvement works made by AySA. It has competence over the evaluation, planning, execution and control of investments in the area of the concessionaire. Moreover, it liaises regularly with the municipalities and the concessionaire through its Advisory Committee, which is composed of representatives of municipalities, the Province and the City of Buenos Aires, as well as representatives from AySA, the Water and Sanitation Regulatory Entity (*Ente Regulador de Agua y Saneamiento, ERAS*⁴) and the SIPH. It reviews and approves the work plan proposed by AySA. The PMOEM's implementation is subject to annual budget availability, and it is revised every five years. The current PMOEM 2019-23 that, consistent with the National Water Supply and Sanitation Plan (*Plan Nacional de Agua Potable y Saneamiento, NWSSP*), targets universal (i.e. 100%) access to water and a 75% coverage for sewerage, has been reviewed by APLA through a resolution (i.e. RESOL-2019-15-E) before being approved by the SIPH.
7. As the main implementing agency of the Program, AySA will be responsible for coordination of the Program, for fiduciary aspects (including operational and procurement plans), technical and operational decision-making, and for Monitoring & Evaluation (M&E). AySA has been formed as a public limited company owned by the National State (90%) and by its employees through their

¹ The legal and institutional setting regarding the provision of water and wastewater services of AySA, the concession area of the city of Buenos Aires and municipalities of the metropolitan area of Buenos Aires dates back to 1993 when the 30-year concession contract was granted to the private operator *Agua Argentinas* (AASA) led by the SUEZ. This contract was terminated by the government through Decrees of Necessity and Urgency 303/2006 and 304/2006 in March 2006 to create AySA (a State-Owned Entity) to take responsibility for the provision of water and sanitation services.

² Until 2016, the AySA concession comprised the CABA and 17 municipalities of the Province of Buenos Aires. Between 2016 and 2018, following an agreement between the National Government and the Government of the Province of Buenos Aires, AySA incorporated into its concession area municipalities that were previously supplied mainly by *Agua Bonaerenses S.A. (ABSA)*.

³ The Ministry of the Public Works (MOPW) has the sectoral competence for water and sanitation services policy at the national level. Within the line ministry, the SIPH establishes the national policy and planning for water and sanitation services and decides the financial national resource allocations to and within the sector.

⁴ In March 2007, new legislation created a new regulatory body, the Water and Sanitation Regulatory Entity (*Ente Regulador de Agua y Saneamiento, ERAS*). ERAS is in charge of controlling AySA's compliance with its legal obligations as a service provider with regard to the concession contract, including water pollution control of AySA's discharges. The tariff structure and levels are set by the SIPH with the previous review of ERAS and APLA. ERAS has the legal possibility of imposing penalties on AySA when the operator fails to comply with its legal obligations.

union (10%)⁵ under its own Bylaws and the provisions of Chapter 11, Article V, sections 163 through 307 of Law No. 19.550. On February 25, 2010, Resolution No. 170/10 issued by the former Ministry of Federal Planning, Public Investment and Services (MINPLAN), was published in the Official Gazette creating a legal relationship or “Binding Instrument” between the National State and AySA. The Binding Instrument includes the aspects established by the Regulatory Framework and Law No. 26.100, as amended. Its purpose, in addition to the provisions in the cited rules, is also to guarantee the availability of the resources necessary to achieve the goals and objectives of the PMOEM, and to promote transparency in the management of the concession and the access to information on its plans and results.

8. Pursuant to the World Bank’s (Bank) Policy and Directive for Program for Results Financing, the Bank’s fiduciary team, comprising FM and procurement specialists, conducted an integrated Fiduciary Systems Assessment (FSA) of the fiduciary systems and entities involved in the Program. The overall objective of the FSA was to determine whether the fiduciary systems of the Program provide reasonable assurance that the Program financing proceeds will be used with due attention to the principles of economy, efficiency, effectiveness, transparency and accountability.

2.2 Program Scope

9. The current PMOEM covers the period 2019-2023 and comprises the three different sub-Programs: (i) Improvements and Expansion, that prioritizes bringing service levels in the newly included municipalities up to those in the rest of the concession area, extending sewerage networks to those areas already served by water networks and inclusion of stand-alone service as primary works are completed; (ii) Improvement and Maintenance currently focusing on water network efficiency through network rehabilitation, demand management through installation of consumption meters and sectorization and energy efficiency through infrastructure rehabilitation and replacement; and (iii) Operations seeking efficiency of internal processes through systems integration and upgrade and improved transparency through actions to improve communication with access to information by the general public and stakeholders. The PMOEM also includes operational expenses associated with the implementation of these programs. The PMOEM includes all interventions to expand and improve WSS services and increase AySA’s operational efficiency and transparency in the 26 municipalities served. The Program (big P) will support activities according to the Results Areas with well-designed geographical and thematical boundaries from the PMOEM (small P) plus the operational expenditures corresponding to the newly built infrastructure under the Program⁶.

⁵ As from December 10, 2015, Class A shares, representing 90% of the Company’s capital, which according to Decrees PEN No. 304/06 and 373/06 belong to the National State and the ownership of which was exercised by the MINPLAN, were transferred to the MOPW, for which reason, their ownership is currently exercised by the latter. The remaining 10% of the Company’s capital, Class B shares, are held by AySA’s workers through an Employee Stock Ownership Plan/Share participation Program.

⁶ The operational expenditures that will be included in the Program, are limited to the operational expenditures associated with the water treatment plants (or wastewater treatment plants), that are within the Program boundaries, including not only the two WWTPs that will be expanded but the existing ones that are related to the activities in Result Area 1. Operational expenditures associated with the actual water and sanitation connections to be constructed through community works (linked to the operation of the water and sewerage networks) are not considered as part of the Program. The Task Team is working with AySA in developing protocols to be included in the Operations Manual on

10. The overall cost of the Program has been determined. The PforR's budget totals US\$ 576.6 million, out of which US\$ 300 million (52%) will be funded by the Bank. The scope of the PforR Program supports three Results Areas.

11. PforR Results Area 1 – Expansion of WSS services, with a focus on vulnerable areas⁷ encompassing:

- (i) (a) expanding safely managed water supply services by bringing treated surface water sourced from the Belgrano water treatment plant (WTP) to these areas. For this purpose, AySA plans to build a new 4,000 m³/h pumping station, a 1,600 m long 1200mm diameter reinforcement pipeline, and a 4,550 m long 700mm diameter conveyance pipeline to the “Cruce” cistern where the clean water will be mixed with the existing groundwater; (b) the installation of intra-household water connections where primary and secondary networks already exist. This intervention will be implemented through AySA's *Agua + Trabajo* model; and
- (ii) (a) expand safely managed sewerage services. For this purpose, AySA will intervene in two wastewater treatment plants (WWTPs)(Planta Norte WWTP: Optimization of the two existing modules, and construction of a third one, including an upgrade in the treatment capacity for nutrient removal; and Jaguel WWTP: Upgrading of the currently decommissioned module to increase the capacity of the plant and the construction of 5 km of primary networks and 78 km of secondary sewerage networks); (b) building intra-household sewerage connections where primary and secondary networks already exist and are connected to functioning WWTPs. This intervention will be implemented through AySA's *Cloaca + Trabajo* model which works like the *Agua + Trabajo* model; and (c) the operational expenditures associated with all new infrastructure under the Program (namely the two WWTPs).

12. PforR Results Area 2 – Improve AySA's operational efficiency through support to the design and implementation of an Efficiency Improvement Plan (EIAP). The three areas where the Program will support implementation of the EIAP are via the: (i) reduction of network leakages through the

exactly how to apportion the operational expenditures to the WTPs and WWTPs included within the Program, since for certain types of operational expenditures, payment of these expenditures is made in a consolidated manner. All expenditures that are part of the Program will be audited.

⁷ In recent years, the issues associated with water and sanitation provision in disfavored neighborhoods have gained attention on the policy agenda, especially with Decree 358/17 ratified by Law 27.453, stating that residents from those neighborhoods were entitled to access to public services such as water, sanitation, electricity or gas in their dwelling, even if they did not have a formal property right. In this regard, in September 2017, APLA approved by Resolution No. 26 the “Criteria for Intervention in Construction of Infrastructure and Operation of the Water and Sanitation Service in Disfavored Neighborhoods/Emerging Urbanizations” to be applied in AySA's provision area. This resolution, which introduces flexibility with regard to the technical requirements for the construction of water and sewage systems, aims at increasing the development of piped services in these neighborhoods. Prior to this resolution, AySA did not provide services in streets that were not registered or that did not comply with the width established by the regulations (ten meters). Following the revision of the technical criteria, AySA must deliver services in streets of public use with double access and that have a minimum width of four meters. As a result of these developments, AySA is legally able to provide services in some disfavored neighborhoods and must work jointly with other state agencies such as the Secretariat of Housing of the Nation, the Secretariat of Urban Infrastructure of the Nation and the Matanza Riachuelo Basin Authority. Taking stock of this legal evolution, AySA has developed the “Disfavored Neighborhoods Plan” as an integral part its PMOEM 2019-23. This plan contemplates the execution of network connections to dwellings in disfavored neighborhoods where legal technical requirements can be fulfilled. However, when the space between dwellings is less than the required minimum, AySA can build infrastructure, but is not entitled to provide service. An operator will then be appointed in each particular situation (a consortium of neighbors, a neighborhood board, a local co-operative, among other options) that will be financially supported by the state. AySA will provide technical assistance, training and water quality sampling.

rehabilitation and replacement of critical water networks; (ii) improvements in energy efficiency; and (iii) expanding the menu of digital payment options available to AySA's customers.

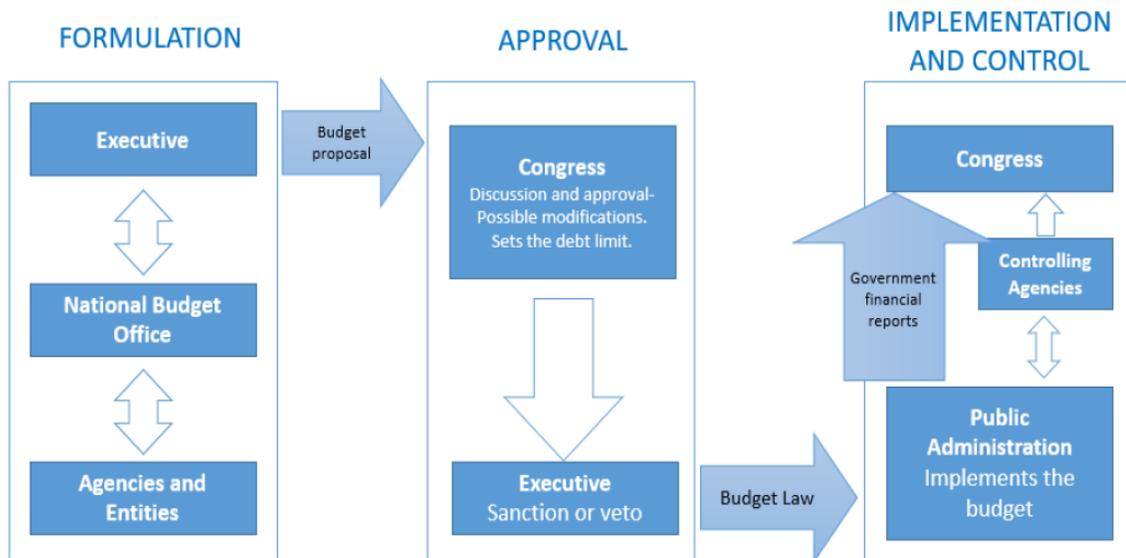
13. PforR Results Area 3 – Increase AySA's capacity to respond to water supply and sanitation emergency needs encompassing the strengthening of AySA's Prevention and Emergency Plan and supporting its strategy to streamline internal and managerial processes to become more agile in responding to shocks (epidemiological, climate related or financial).

3. Review of the Public Financial Management Cycle

3.1 Planning and Budgeting

3.1.1 Adequacy of Budgets

14. AySA finances its operations and the PMOEM through transfers from its majority shareholder, the National State, by funds generated by its operations and by obtaining bank loans or issuing debt bonds in financial markets. Consequently, AySA depends on the transfers from the National State for the execution of the PMOEM and the payment of its liabilities.
15. Chapter IX of AySA's Regulatory Framework, approved by Law No. 26.221, establishes the economic and financial regime of the concession. It is understood that AySA has an economic and financial balance if the rates for the services provided allow it to recover the costs associated to them, including operating costs, as well as tax and financial costs, if any. Since the income from rates is not sufficient to achieve the above-mentioned balance, the National State transfers to AySA the funds approved by the National Legislature by means of the National Budget Law. In this sense, every year, the National Budget Law assigns the transfers to be made to AySA during the year, which includes direct transfers from the National State (Source 11) and transfers from loans obtained by the National State from the multilateral bodies (Source 22).
16. As such the Program will follow the Federal budget cycle and process. The formal budget process in Argentina consists of four stages. The first stage entails the formulation of the Executive's budget proposal, and the second involves the congressional discussion of the proposal and approval of the budget law. In the third stage, the proposal is implemented, and in the fourth, the execution of the budget is evaluated and controlled. The fiscal year runs from January 1 to December 31.



17. In a nutshell during the formulation stage, based on revenue estimates and forecasts of the main macroeconomic variables, medium-term ceilings on budget aggregates and ministry/agency expenditures are proposed by the National Budget Office (*Oficina Nacional de Presupuesto, ONP*⁸) and approved by the Head of the Cabinet (based on established priorities and public policies). The line ministries/agencies will then prepare their preliminary draft budgets on this basis. In the case of the PMOEM, there is a specific unit within AySA (*Coordinación y Seguimiento de PMOEM*) that acts as the focal point for preparation of the budget documentation relating to the PMOEM, which is then included in the broader AySA budget proposal to be sent to the ONP for review. Consequently, there is due process between the implementing agency (via the MOPW) and the ONP for negotiating the annual budget. AySA's detailed planning and budgeting activities encompass the following: (a) planning and providing assistance to the various budget sector units; (b) analysis and adjustment of proposed programs with priorities and budget availabilities, and (c) consolidation and preparation of the final budget documentation⁹. Staff are familiar with the budget cycle and respective rules and regulations. It is also worth mentioning that, for projects financed by the National Government (i.e. AySA investment projects in this case), the Public Investment Project Bank (BAPIN) verifies that the investment projects to be incorporated into the BAPIN, comply with certain standardization criteria, in order to allow comparability and prioritization prior to their inclusion in the National Budget. The ONP, the ruling authority of the budget process, then evaluates the *anteproyectos* (preliminary projects) prepared by the ministries/agencies and puts together the aggregate proposal.

⁸ Every year the National Budget Office disseminates a general Budget Circular (*Manual para la Formulación del Presupuesto de la Administración Pública Nacional*) that provides clear and comprehensive guidelines for the formulation of the budget proposal for all entities that are part of the budgetary central government. It includes instructions with regard to all forms (manual and digital) that must be filled to complete the process.

⁹ This documentation includes for example, the forms set out in document R-RPC-00-006 from AySA's Budget Manual, setting out Plan of Action and Objectives for each major works (costs per year, source of financing, cubic meters of water produced or sewerage treated, personnel cost implications etc.); budget needs for the next 3 years (current and capital); quarterly cash flow forecasts; personnel cost analysis (permanent vs non-permanent); external and internal financing analysis including repayment obligations (split between capital and interest).

18. The current National budget classification includes administrative, functional, and economic classifications. The detailed budget classification manual is defined under the Ministry of Economy (MOE) Resolution No. 388/2013 and its amendment Resolution No. 179/2016. According to this regulation, the State budget is appropriated and allocated based on: (i) organizational units (jurisdictions); (ii) functions (and sub-functions); (iii) programs (activities); and (iv) economic classifications. Neither the administrative nor the functional classification is completely aligned to the latest standards (2014 GSF Standards), but they present consistent information. The economic classification is compliant with the 2001 GFS Standards. The classification is used for budget formulation, execution, and reporting and is based on administrative, programmatic, economic, and functional/sub-functional classification and is available online, as is the corresponding regulation. The classification is embedded in the government's chart of accounts (the accounting classification) to ensure that every transaction can be reported in accordance with any of the classifications used. The budget and accounting classifications are reliable and consistently applied, in that information recorded against one classification is reflected in reports under the other classification.
19. The Executive must submit the annual budget¹⁰ to the National Congress¹¹ for its approval before September 15, when the approval stage begins. The National Congress then evaluates the proposal through the *Comisión de Presupuesto y Hacienda* (Budget Committee) of each chamber¹². The National Congress is empowered to approve or reject the budget proposal, to introduce modifications, and to remove articles. The budget proposal is received by the Chamber of Deputies, considered and dispatched, before it arrives in the Senate for analysis and approval. If problems arise with the revision, a joint commission of both chambers is established to resolve matters. After the National Congress approves the budget, the Executive can introduce line item vetoes.
20. During the next stage, the implementation stage, the Executive distributes the expenditure authorizations among the line ministries/agencies and introduces modifications¹³. The ONP

¹⁰ Argentina's score of 58 on the 2019 Open Budget Index is higher than its score in 2017 as Argentina has increased the availability of budget information by: (i) Publishing the Citizens Budget online; and (ii) Increasing the information provided in the Executive's Budget Proposal. However, Argentina has decreased the availability of budget information by failing to publish the Audit Report online in a timely manner. Argentina's score of 15 out of 100, indicates that it also provides few opportunities for the public to engage in the budget process. At the end of 2016, the Legislature voted to constitute an independent Congressional Budget Office to provide specialized technical assistance and support to the Legislature in all matters relating to the budget and legislative budget scrutiny. The Congressional Budget Office has been in operation since mid-2017 and supports legislators to deepen understanding of issues involving public resources, democratizing knowledge and decision-making. It is a technical fiscal analysis office that produces open reports to citizens.

¹¹ The Argentine National Legislature is a bicameral institution, with a 257-seat Chamber of Deputies as the lower chamber and a 72-seat Senate as the upper chamber. Deputies represent the people of Argentina, whereas Senators represent the 23 Provinces and the City of Buenos Aires, into which the country is organized. Members of both chambers are elected by popular vote for a four-year period and a six-year period respectively and can be reelected indefinitely.

¹² Their main function is to examine the budget proposal, provide recommendations, and submit the document for approval to the floor of their respective chamber.

¹³ The general rules for in-year budget amendments are established in the National Public Sector Financial Management and Control Systems Act. The law states that only the Legislature can make in year amendments that may impact the total budget ceiling, or the level of public borrowing approved and, more specifically, changes that may increase the budget allocated for intelligence and non-disclosed expenditure. The regulatory provisions to the law above, set a framework for in-year budget amendments establishing that there are two types of amendments possible: (a) those that require the approval of the Ministry of Treasury, and (b) those that can be approved by the head of the budget unit. In all

prepares a wide range of in-year budget execution reports, that include all revenue and expenditure data for the central administration, decentralized entities, and social security entities. Budget execution reports capture figures for each stage of the budget execution process, as recorded in the Federal Government's Integrated Financial Management Information System (*Sistema Integrado de Información Financiera, or e-SIDIF*) by every budgetary unit. As such, information is comprehensive and allows for comparison to the approved budget by economic and functional classification, by spending unit, by source of funding, by program classification, and by geographic location. Expenditures made from transfers to decentralized units within the central government are included in these reports. AySA monitors budget execution on a monthly basis, using internal budget reports that provide accurate, comprehensive, and understandable information, and any budget modifications required are usually requested twice a year (in April and October). Consequently, actual expenditures are compared to the budget with reasonable frequency, and explanations are provided for significant variations from the budget.

21. Budget execution is recorded *e-SIDIF* which began operations in 1993. It has been improved in phases, and now provides capabilities for modern treasury management, including features to record and control commitments, process payments, account for cash and accrual transactions, and prepare financial statements. *e-SIDIF* is used by all Central government budget entities. *e-SIDIF* is also linked to the Debt Management and Information System (SIGADE). The MOE which manages *e-SIDIF*, controls and verifies budget execution. *e-SIDIF* uses comprehensive expenditure classifications where expenditures can be classified and reported by institution, category, financing source, economic use, programs, and function. *e-SIDIF* also has modern Business Intelligence tools for the manipulation of data and generation of custom reports. Greater flexibility/disaggregation in the Chart of Accounts has also resulted in an improvement in the automatic registration of transactions and facilitated comparisons of accounting to budget data, with the system capable of recording multi-currency accounting entries. *e-SIDIF* also has an automated bank reconciliation, that facilitates the task of reconciling information between bank statements and the accounting records, to guarantee the reliability, accuracy and completeness of the accounting records. Integrations between the *e-SIDIF* system and the transversal systems ComprAR, ContrarAR, LOYS, GAT has also contributed to greater transparency.
22. During the final stage, the evaluation and control stage, the National Congress—through the Government Supreme Audit Institution (*Auditoría General de la Nación, AGN*)—performs ex post controls regarding budget implementation and must evaluate and approve the *Cuenta de Inversión* (the annual budget execution report and financial statements elaborated by the Executive). The AGN provides adequate budget oversight. Under the law, it has full discretion to

cases, these amendments must be made without compromising the approved and legally binding budget ceiling. In addition to this very clear set of rules established for in-year budget modifications, the Executive can also exercise constitutional and legal provisions to modify budget ceilings approved by the Legislature without ex-ante approval of the Legislature. It can do this in two ways. First, by sanctioning an Administrative Decision of the Chief of the Cabinet Office to modify specific aspects of the existing allocation of resources, for example between capital and current expenditure and between functions of the budget. Second, by enacting a Decree of Necessity and Urgency (*Decretos de Necesidad y Urgencia*) to raise the global budget ceilings approved by the Legislature. This action not only requires having reasoned assessment and clear justification, but also the endorsement of the Cabinet of Ministers. Furthermore, it must be returned to the Legislature so that its members can approve its legitimacy.

undertake audits as it sees fit. Moreover, the head of the institution is appointed by the legislature and cannot be removed without legislative approval, which bolsters its independence. Finally, the AGN is provided with sufficient resources to fulfill its mandate.

23. In addition, Argentina did not have a functioning Independent Fiscal Institution (IFI) before December 21, 2016, when the *Oficina de Presupuesto del Congreso* (Congressional Budget Office, CBO) was created by Law 27.343 as an important source of independent, nonpartisan budget information. As part of the IMF Stand-by-Arrangement (SBA), the Argentine government has undertaken to adequately resource and staff the CBO, so that it can effectively: (i) evaluate budgetary and macroeconomic forecasts (including those contained in the annual budget and mid-year budget report); (ii) provide independent costing to the National Congress of new policy initiatives; and (iii) assess the government’s fiscal plans, including the annual budget. There would also be a comprehensive examination of the CBO’s design features to ensure that it is fully able to achieve the government’s desired objectives.

3.1.1.1 Budget Classifications

24. Transfers to AySA are appropriated and allocated based on:

- (i) an organizational unit classification code of 1.1.1.91.00.000-*Obligaciones a Cargo del Tesoro* (National Public Sector: Non-Financial (1); National Administration (1); National Central Administration (1); Jurisdiction (91) (**Jurisdiction 91 in simple terms**);
 - (ii) an economic classification¹⁴ of “Transfers” (5) and a sub-function classification of “Transfers to other entities from the National Public Sector” (5)- (**Code 55 in simple terms**);
 - (iii) a source of financing code (National State (**Source 11**) and transfers from loans obtained by the National State from the multilateral bodies (**Source 22**);
 - (iv) a program code (Financial Assistance to Public Entities and other Entities (**Code 95**));
 - (v) a functional classification of Social Services (**Code 3**) and Water and Sanitation (**Code 8**); and
 - (vi) distinction between recurrent (**Code 21**) and capital (**Code 22**) costs.
25. In the above-mentioned budget line item or classification, reflecting the Transfers to AySA, disaggregation for program expenditure monitoring is made by AySA using its processes and systems. At the national level, no distinction is made of the financing being provided for PMOEM as PMOEM is not a separately identified line item in the National Budget. AySA’s budgeting and accounting information systems are able to track the expenditures incurred under the Program using accounting policies consistent with national public sector policies/standards. However, close implementation support will need to be provided by the Bank to help establish the arrangements to produce the Program Annual Financial Statements. The Program’s budgeting transactions will be also be processed through e-SIDIF under the general budget code/line

¹⁴ There are nine economic classifications (Personnel Costs, Goods to Consume, Non personnel Costs, Goods to Use, Transfers, Increase in Financial Assets, Debt Service and Liability Repayments, Other Costs and Figurative Costs) and 67 subfunctions.

specified above (and UEPEX with respect to Source 22 financed expenditures) after having been processed through AySA's own budgeting and accounting information systems.

26. The review of the Program Composition by Program/Activity and Expenditure Categories is included in the Technical Assessment.

3.1.1.2 Financial Sustainability and Funding Predictability

27. As mentioned previously AySA finances its operations and the PMOEM primarily through transfers from its majority shareholder, the National State. Law No. 27.467 on the National Budget for the year 2019, regulated by Resolution No. 12/19 issued by the Head of the Cabinet of Ministers allocated transfers to AySA for the fiscal year ending on December 31, 2019 for works (costs of acquisition or construction of assets used to provide the service) in the amount of AR\$ 15,562 million (including loans from multilateral entities belonging to Source 22).

28. The following budgetary changes were subsequently made:

- (i) On March 13, 2019, through Administrative Decision No. 194/19 issued by the Under-Secretariat of Budget, it was decided to decrease the transfers allocated to AySA (Source 11) by AR\$ 1,800 million and to increase budgetary transfers (Source 22) by AR\$ 811 million.
- (ii) On April 15, 2019, through Administrative Decision No. 288/19 issued by the Head of the Cabinet of Ministers, it was decided to increase the transfers allocated to AySA (Source 22) by AR\$ 3,000 million.
- (iii) On June 3, 2019, through Resolution No. 458/19 issued by the Under-Secretariat of Budget, it was decided to increase the transfers allocated to AySA (Source 22) by AR\$ 200 million.
- (iv) On July 3, 2019 through Administrative Decision No. 567/19 issued by the Head of Cabinet of Ministers, transfers allocated to AySA (Source 22) for the year 2019 were redistributed from Program 44 (BIRD) to Program 94 (IDB and CAF) for an amount of AR\$ 1,000 million.
- (v) On August 28, 2019 through Administrative Decision No. 732/19 issued by the Head of Cabinet of Ministers it was decided to increase the transfers allocated to AySA (Source 22) by AR\$ 1,000 million.
- (vi) On October 16, 2019 through Administrative Decision No. 847/19 issued by the Head of Cabinet of Ministers it was decided to increase the transfers allocated to AySA (Source 22) by AR\$ 3,413 million.
- (vii) On November 28, 2019 through Administrative Decision No. 961/19 issued by the Head of Cabinet of Ministers it was decided to increase the transfers allocated to AySA (Source 11) by AR\$ 1,622 million and a decrease in budgetary transfers (Source 22) by AR\$71 million.

(viii) On December 2, 2019, through Administrative Decision No. 1239/19 issued by the Under-Secretariat of Budget, it was decided to decrease by AR\$ 80 million the transfers allocated to AySA (Source 22).

(ix) On December 5, 2019, through Administrative Decision No. 1280/19 issued by the Under-Secretariat of Budget, it was decided to increase by AR\$ 465 million in Program 44 (IBRD) and a decrease by AR\$ 40 million in Program 94 (IDB), both from Source 22, the transfers allocated to AySA.

29. In summary, during the year ended on December 31, 2019, AySA received transfers from the National State amounting to AR\$ 21,737 million (AR\$ 10,181 million related to Source 11, AR\$ 11,507 million to Source 22 and AR\$ 49 million from other sources). From the start of the concession and up to December 31, 2019, the Company has received transfers from the National State of AR\$ 85,689 million.

30. In 2019, AySA collected AR\$ 31,790 million of revenues and generated a net negative operational result of AR\$ 19,105 million. The operating cost coverage of AySA was very low, at 41% in 2015, and the operational result remains chronically negative. As such, AySA is dependent on National Government financial transfers to cover part of its operating costs. By the end of 2015, the National Government was subsidizing 88% of AySA's total expenses (OPEX and CAPEX) Nevertheless, this dependency has clearly been declining since 2016¹⁵ as the tariff¹⁶ has been increasing. As a result, operating cost coverage rose to 75% in 2017, and declined slightly to 72% in 2018 and rose again to 75% in 2019.

31. The financial sustainability of AySA has to be strengthened to reach at least full operating cost coverage on a routine basis (including maintenance, rehabilitation and depreciation) and reduce dependency with regard to national funding, which may be subject to the country's macroeconomic situation. AySA's is seeking efficiency gains as a means to improve its financial sustainability and cost-recovery ratio via the implementation of an adequate asset management strategy to prioritize rehabilitation works, lower technical losses and improve energy efficiency¹⁷. All these targets (network renewal, loss reduction, energy efficiency) are explicitly mentioned in the PMOEM 2019-23.

32. Staff costs represent a large share of operational expenditure. As a result, looking at staff efficiency is key to assess utilities' operational efficiency. Argentinian water utilities, staff efficiency (measured as the ratio of staff per 1 000 connections for drinking water) is on average 3.33 employees per 1 000 connections, ranging from 1.00 to 7.10. For a sample of companies in Latin America, the ADERASA (Association of Regulators of Water and Sanitation of the Americas)

¹⁵ Since the nationalization in 2006, tariffs have remained frozen until 2016.

¹⁶ AySA proposes tariff increases to the SIPH, the authority responsible for tariff setting. ERAS, the Users' Ombudsman of the ERAS and APLA are consulted and, although not mandated by law, since 2017, a public hearing has been convened for all tariff increase requests.

¹⁷ Due to the flat topography of the provision area, a large number of pumps are required to operate the service, which generates important electricity costs. At the end of 2015, electricity tariffs went up, affecting AySA's production costs and making AySA the fourth largest consumer of electricity in the country.

benchmarking study estimates that the average staff efficiency is 2.94, with a variation of 1.04 to 6.48. On average, AySA's overall staff efficiency amounts to 2.1 employees per 1 000 connections (water and sanitation) and 3.51 employees for 1 000 water connections. AySA's workforce has steadily increased, from 4 058 employees in 2006 to 4 596 in 2009 and 7 841 in 2018. The latest staff increase was the consequence of the incorporation of *Aguas Bonaerenses SA* (ABSA) staff following the expansion of AySA's provision territory to include nine municipalities that were previously served by the ABSA and the municipalities. Nevertheless, this increase happened in a context of slow coverage improvement (an additional 1.8 million people for water and 1.9 million for sewers between 2006 and 2018, representing a 53% increase) compared to the increase in staff (93% increase from 2006 to 2018), thus lowering further the staff efficiency level, especially for water.

3.1.1.3 Adherence of Program Expenditure to Government Priorities and Budget Execution

33. Budget vis-à-vis Actual Expenditures, 2014-19

1000's of AR\$	Initial Allocated Budget					
	2014	2015	2016	2017	2018	2019
Operating Costs	5,059,336	6,960,974	10,919,347	16,032,648	20,004,529	28,500,395
Investments	5,812,913	8,817,212	11,523,520	18,591,306	22,907,880	25,278,604
<i>Improvement and Maintenance</i>	<i>1,638,749</i>	<i>3,094,999</i>	<i>4,352,839</i>	<i>5,573,152</i>	<i>4,565,000</i>	<i>5,500,000</i>
<i>Expansion</i>	<i>4,174,164</i>	<i>5,722,214</i>	<i>7,170,681</i>	<i>13,018,154</i>	<i>18,342,880</i>	<i>19,778,604</i>

1000's of AR\$	Budget Execution					
	2014	2015	2016	2017	2018	2019
Operating Costs	5,043,613	7,013,931	10,468,436	14,550,486	19,736,981	29,890,733
Investments	5,648,673	6,782,796	9,653,481	17,744,759	20,149,482	25,214,065
<i>Improvement and Maintenance</i>	<i>1,628,213</i>	<i>2,271,790</i>	<i>3,472,358</i>	<i>4,487,493</i>	<i>5,856,239</i>	<i>5,678,288</i>
<i>Expansion</i>	<i>4,020,461</i>	<i>4,511,006</i>	<i>6,181,123</i>	<i>13,257,266</i>	<i>14,293,242</i>	<i>19,535,777</i>

Percentage	Budget Outturn					
	2014	2015	2016	2017	2018	2019
Operating Costs	99.69%	100.76%	95.87%	90.76%	98.66%	104.88%
Investments	97.17%	76.93%	83.77%	95.45%	87.96%	99.74%
<i>Improvement and Maintenance</i>	<i>99.36%</i>	<i>73.40%</i>	<i>79.77%</i>	<i>80.52%</i>	<i>128.29%</i>	<i>103.24%</i>
<i>Expansion</i>	<i>96.32%</i>	<i>78.83%</i>	<i>86.20%</i>	<i>101.84%</i>	<i>77.92%</i>	<i>98.77%</i>

34. The unplanned incorporation of nine municipalities in AySA's provision area between 2016 and 2018 couple together with the macroeconomic situation increased operational expenditures and budgetary pressures, further reducing AySA's capacity to invest and fulfil the PMOEM's 2014-18 targets. Nevertheless, WSS is a National Government priority and that the mobilization of citizen organizations, water users, non-governmental organizations, local governments and environmental groups, has contributed to raise the profile of urban water issues in Argentina, as evidenced by National Supreme Court ruling passed in 2008, that ordered the government to take the necessary measures to clean up the highly polluted *Matanza-Riachuelo* basin. The PMOEM is also partly financed from Source 22 financing (external aid), which evidences support of donors' aid flows to the Program. While government transfers to AySA have been and could be instable in times of macroeconomic turbulence, the risk of sustainability to the Program investments is considered to be minimal because of the priority that the National Government is giving to the Program (unserved low income areas strongly hit by the COVID pandemic, plus strong will to increase efficiency).
35. The PMOEM is prepared every five years based on works completed/service requirements/information from census etc. The process for developing the next version of the PMOEM will normally start 1 to 1.5 years before the end of the current PMOEM. The PMOEM is prepared on the basis of standard water measures or statistics and specific studies. For example, 1km of water and sewage connections normally requires x number of connections, y km number of pipes, z number of pumps with standard costs/measures for each of these elements used to derive the total cost of the works. The PMOEM is adjusted as investments/works are designed and implemented further, together with the impact of changes in the prices. There are processes in place to ensure, that an up to date listing of prices/costs is maintained (monthly updates, based on for example the prices quoted by suppliers on contracts or the results of recent studies) so that the budgeting of works is maintained as realistic as possible, taking into account both inflationary and exchange rate pressures. The unit responsible for planning and coordinating the execution of PMOEM, is adequately and competently staffed, and also have vast experience. There are policies and procedures in place to guide the preparation of the PMOEM from a technical perspective, including guidelines on how to cost works, monitor prices, seek explanations in case of variances greater than 15% or less than 20% from the expected costs/prices. An annual report (showing the progress up to the end of each fiscal year) is also prepared each year, to be submitted to APLA, analyzing the execution of the PMOEM overall.
36. AySA has a high degree of autonomy in budget execution, within the parameters of the approved PMOEM, and has a high institutional capacity. The Program is not protected by revenue earmarking mechanisms and consequently there is no protected share of the Program.
37. The Program's budget is realistic and implemented in an orderly and predictable manner. There is a reasonable expectation that the required resources will be appropriated in the financial years when required. Nevertheless, this is an issue that requires close monitoring during supervision, to ensure the necessary resources are made available to AySA and that the Program is a high enough priority that it survives any budget cuts.

3.1.2 Procurement Planning

38. For the service expansion works under the *Dirección de Contratos y Control de Gestión*, the general criteria that guide the development of the service expansion works plan implies assigning the bidding dates of the projects included in the Master Plans, but it is not made publicly available. For this, the following variables are considered:

- Sequence and years of construction of the projects defined in the Expansion and Improvement Master Plan, and status and estimated purposes of the associated works required (precedents) for each project.
- Status of the Service Studies, Basic Designs and Specifications involved, and times for preparing technical specifications and bidding documents of projects.
- Budget availability for the execution of the works and estimate of the annual economic impact of each project. In this aspect it is considered: (i) source of financing assigned to each project; and b) investment amount.
- Importance of the work for the operation of the System or Basin, and quality of the services (emergencies and existing problems to be solved).
- Population involved: (i) number of beneficiaries (inhabitants); and (ii) inclusion of low income neighborhoods and vulnerable areas.
- Specific requests and emergencies established by municipal, provincial and national authorities.

39. Furthermore, every year a Procurement Plan is prepared by all the company's management and is consolidated by *Dirección de Compras y Almacenes*. This plan includes the improvement and maintenance works, goods and services, but do not include the service expansion works contracts that are managed by the *Dirección de Contratos y Control de Gestión*, but it is not made publicly available. The Plan is made available to the company's Board of Directors, together with a comparison with the company's budget. *Dirección de Compras y Almacenes* monitors the execution of said plan.

40. Once a request of works, goods or services is made, *Dirección de Compras y Almacenes* or *Dirección de Contratos y Control de Gestión* verify if it is included in the procurement annual plan. For those activities that are not included in the plan, the requesting unit should justify the need for the works, goods or services and the reason for its non-inclusion in said plan, with the corresponding authorization level from the Area Director.

41. For the purposes of strengthening Program's System, it is recommended the publication of an updated Procurement Plan that contains all the procurement processes planned on AySA website, including a brief description of the contracts, the selection methods to be applied, cost estimates, time schedules, and any other relevant procurement information.

3.1.3 Procurement Profile of the Program

42. The Program objectives will be achieved through the following activities, to be carried out by AySA:

- Expansion of WSS services, which consists of, inter alia: (i) construction of water supply and sanitation intrahousehold connections; (ii) construction of sewerage networks, main pipes, pumping stations, and optimization and extension of WWTPs, and (iii) capacity building activities and training to local cooperatives;
- Increase AySA's operational efficiency, which consists of, inter alia: (i) network renovation; (ii) installation of pressure management valves; (iii) leak detection and repair; (iv) installation of energy monitoring tools and replacement of pumps and other equipment; (v) energy audits; (vi) upgrading of the customer care center; (vii) upgrading of the data warehouse; (viii) modernizing the contact center; and (ix) implementing telemetry technology for large customers.
- Build AySA's capacity to respond to water supply and sanitation emergencies through:
 - Mitigation of COVID-19 shock in AySA's operations, which consists of (i) provision of water through trucks, boats and bottled water and disinfectant to unserved areas with special attention to vulnerable areas; (ii) suspension of service cuts for those in arrears; (iii) sensitization campaigns on handwashing and hygiene, or (iv) acquisition of safety material for AySA's staff.
 - Implementation of digital solutions of (i) digitalization of workflow and commercial management processes and purchase of servers; (ii) the integration of its three human resources (HR) systems; (iii) solutions to enable the remote work modality on a continuous basis; (iv) predictive maintenance of main assets; (v) optimization of the customer complaint management system, and (vi) developing a citizen engagement app and Customer Relationship Management System

3.1.4 Procurement Performance

43. AySA relies on skilled procurement staff and it is not reasonable to expect any bumps on demand for more procurement work. AySA's staff working on procurement has solid capacity and knowledge of local procurement rules and procedures.

44. The Bank team reviewed data of all contracts for works awarded by AySA from January 2016 to December 2019 and found that 83% of all contracts were awarded through open competitive procurement processes whereas 13% followed less competitive methods (limited competitive bidding) and 3% were awarded without competition. When considering the amount of money spent through procurement processes for works, the use of open competitive methods is even more prominent, at 91%. Table 1 below summarizes the results found based on the data for contracts for works.

Table 1
WORKS - Open and Limited Competitive Bidding processes between 2016 and 2019

Procurement Method	Number of bid openings		Average deviation offers vs estimated cost	Lowest bid deviation vs. estimated cost	Awarded amount %	Number of cancelled processes	
	Number	%				Number	%
Open Competitive Bidding	230	83%	-12%	-24%	91%	47	20%
Limited Competitive Bidding	37	13%	20%	0%	3%	12	32%
Direct Contracting	9	3%	N/A	N/A	7%	N/A	N/A

45. **Competitiveness.** AySA received on average of 6.9 bids per bidding when implementing open bidding processes during 2016-2019 as shown in Table 2. When considering limited competitive bidding goes down to three 3.7 bids per open bidding process (Table 3).

46. Bidders offering national goods, works or services are entitled to a 7% margin of preference over foreign bids²⁷. In the case of procurement of goods, any good to be considered of national origin must have been produced in the country, provided that the cost of imported raw materials, supplies or nationalized materials does not exceed forty percent (40%) of its gross value of production.

Table 2
WORKS - Open Competitive Bidding processes between 2016 and 2019

Year	Number of bidding processes	Number of non-repeated bidders	Number of bids	Average number of bids
2019	26	52	179	6.9
2018	25	56	175	7.0
2017	68	108	378	5.6
2016	111	151	899	8.1
Total	230	367	1631	6.9

Table 3
WORKS - Limited Competitive Bidding processes between 2016 and 2019

Year	Number of bidding processes	Number of non-repeated bidders	Number of bids	Average number of bids
2019	1	4	4	4.0
2018	6	9	25	4.2
2017	18	31	59	3.3
2016	12	22	39	3.3

Total	37	66	127	3.7
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47. **Estimated costs** are the responsibility of the requesting units or areas at the very beginning of the procurement process. During project preparation AySA reported that estimated costs are accurate as they are based on the existing market prices and conditions for the requested contracts and previous prices paid by AySA. On those bidding processes with an estimated amount beyond US\$ 150.000, witness price must be requested from the *Sindicatura General de la Nación* (SIGEN), the control body of the Executive and within its control universe are the Companies with state participation such as AySA.

48. **Timeliness.** Data reviewed by the Bank regarding a sample of 15% of the open competitive bidding processes for works during 2016-2017 shows that AySA took on average 139.6 days (4.6 months) to award and sign contract as shown in Table 4. Most of the time spent to turnaround a procurement process goes on (i) bid evaluation and award recommendation (58.8 days), and (ii) contract signing (35.3 days).

Table 4
WORKS - Open Competitive Bidding processes between 2016 and 2017

Years	No. of bidding processes analyzed (15% of total open competitive bidding processes)	No. of bids	Average no. of bids	Average time to prepare bids (no. of days between procurement notice and bid opening)	Average time to evaluate bids (no. of days between bid opening and contract award)	Average time to sign the contract (no. of days between contract award and sign)	Average no. of days between procurement notice and contract award
2016-2017	28	199	7.1	45.5	58.8	35.3	139.6

49. General conditions for bidding documents for procurement of works are published in the “*Manual de Procedimientos*”. These general conditions apply to all bidding documents published by AySA and it’s a standard bidding document of mandatory use developed by AySA based on many years of experience of company’s procurement. The Bank reviewed the standard bidding documents, and a summary of its content is described in 3.2.3 *Procurement processes and procedures*.

3.2 Budget Execution

3.2.1 Treasury Management and Funds Flow

50. There are adequate arrangements for transferring funding from the MOE to AySA, to ensure funds are made available in line with implementation plans and that funds are made available in an orderly and predictable manner as further described below.

51. For National Treasury financing (Source 11 financing) the flow of funds will follow the normal/standard process as for all Source 11 financing. Transfers are made in line with approved budget authorizations and limits. The MOE transfers funds to the AySA’s general bank account (held at the *Banco de la Nacion*) every quarter in AR\$, based on forecasts provided by AySA. AySA

then transfers funds to separate physical bank accounts (held at various commercial banks) that are set up for specific programmatic/financing purposes. From these separate bank accounts, payments are made to suppliers/vendors/contractors.

52. Disbursement of Bank loan proceeds will be made at the request of AySA upon achievement of Disbursement-Linked Indicators (DLIs). The loan proceeds will be disbursed upon the achievement of verified DLIs and are not dependent on or attributable to individual transactions or expenditures of the Program. There will be a total of 12 DLIs. The financing amount allocated per DLI has been determined based on the relative importance of the indicator, to provide the incentive necessary to achieve overall Program goals and outcomes. There are no DLIs defined as being time bound. The DLIs do not have a firm achievement date attached to them—they are achievable at any time during the Program implementation period. In this case, AySA can request disbursement against the achievement of these DLIs at any point after its achievement has formally been verified. Nevertheless, verifications are scheduled to take place on a semi-annual basis (i.e., the timing of disbursements) in order to ensure that AySA has the required budget predictability and flow of funds. DLIs 1.1, 1.2, 2.1, 2.2, 4.1, 4.2, 6.1, 6.2 and 7 are scalable- thus allowing for disbursements to be proportional to the progress towards achieving the targeted DLI value-whereas DLIs 3, 5.1 and 5.2 are not scalable (the indicators relate to actions that are either achieved or not). For each DLI with scalable disbursement, the formula to determine the amount of financing proceeds to be disbursed relative to the level of achievement of the DLI is specified in the DLI Matrix.
53. Verification Protocols-AySA will contract a consulting firm (to be paid for as part of the Program expenditures) to provide independent and credible verification of the achievement of the DLIs, with the exception of the Prior Results Financing (DLIs met by AySA between the date of the Program Concept Review (July 16, 2020) and the date of the Legal Agreement)¹⁸. The Independent Verification Agent (IVA) selected, will need to be acceptable to the Bank, and will thus be assessed by the Bank, to ensure it has the necessary independence, experience and capacity of ensuring credible verification.
54. AySA will prepare Program Monitoring Reports to document the status of achievement of the DLIs. These reports will be verified by the IVA, appointed by AySA, as per Terms of Reference (TOR) agreed with the Bank. On validation of DLIs by the IVA, AySA will communicate the achievement of DLIs and corresponding DLI values to the Bank, supported by the relevant evidence and documentation. Following the Bank's review of the complete documentation, including any additional information considered necessary to confirm the achievement of the DLI results, the Bank will confirm the achievement of the DLI(s) and the level of Program financing proceeds available for disbursement against each DLI.
55. Disbursement requests or Withdrawal Applications (WA) will be submitted to the Bank by AySA using the Bank's e-disbursement (Client Connection) system. A copy of the Bank's official

¹⁸ Prior Results under DLI 5.1 will be verified before Loan signing by an interim third-party verification agent (but not the consulting firm referred to above) agreed by AySA and the World Bank.

communication, confirming the DLI achievement, should be attached to the disbursement requests.

56. The Operation does intend to use the functionality of PforR Advances. The Bank may make an advance payment of up to US\$ 75 million (maximum)¹⁹ for one or more DLIs, which have not yet been achieved. To request an advance, AySA attaches a “request for advance” letter to the WA, as per the sample included in the Disbursement Letter. When DLIs are achieved, the amount of the advance is recovered from the amount due to be disbursed under such DLIs. The advanced amount recovered by the Bank is then available for additional advances (“revolving advance”). When an advance has been provided and the DLIs are achieved and verified, the advance is always recovered first. If the amount allocated to a DLI that has been achieved and verified is larger than the advance, then the Bank will disburse the amount in excess of the advance through a Reimbursement (DLI Payment). The Bank requires that AySA refunds any advances (or portion of advances) if the DLIs have not been achieved (or have been partially achieved) by the program closing date.
57. In addition, an amount of US\$ 15 million of the PforR operation will be disbursed on account of Prior Results Financing.
58. The General Conditions state, that if after the Closing Date the Borrower fails to provide the Bank evidence satisfactory to the Bank, that the withdrawn loan balance does not exceed the total amount of Program Expenditures (payments made on or after the Signing Date but before the Closing Date), the Borrower shall upon notice from the Bank promptly refund to the Bank such excess amount of withdrawn balances. Due to exchange rate pressures²⁰, there is a risk that the amount of Program Expenditures once converted to US\$ may be insufficient to cover the withdrawn loan balance in US\$ terms²¹. This risk will be closely monitored during implementation,

¹⁹ On June 30, 2020, the Bank’s Board approved proposals for adjusted pricing and repayment terms (the “FY21 measures”) (to take effect from July 1, 2020 onwards) in respect of certain lending and guarantee operations that use funds from the crisis buffer under IBRD’s Financial Sustainability Framework (FSF), as well as certain **fast-disbursing operations**. The term “fast-disbursing” as it applies to IBRD loans means all DPF operations (except special development policy loans), as well as IPF and PforR operations that have cumulative disbursements equal to or greater than 60 percent of the loan , prior to, or as of, the date that falls two calendar years following the commitment. In the context of this Program, care will need to be taken by the Borrower/AySA to control disbursement requests (including advance requests), to ensure that the IBRD loan does not qualify as a “fast-disbursing” loan that would then be subject to a shorter average maturity (i.e. faster repayment) of 8 years.

²⁰ The Argentine peso continued to depreciate to cross 80.3 against the USD (see graph below), its lowest level on record, amid a grueling domestic economic crisis and the coronavirus pandemic. Despite winning \$38 billion in debt relief from its international creditors, Argentina’s economy is projected to shrink by around 12% in 2020 due to the COVID-19 outbreak and it is locked in a currency crisis with foreign reserves falling to a four-year low.



²¹ Given that at the end of each semester, the exchange rate normally used to convert local currency expenditures to US\$, may be very different from the exchange rates in affect during the semester, when the payments were made.

not only during supervision missions, but also by review of the semesterly IFRs, coupled together with the flow of funds and accounting arrangements described below.

59. The Bank's loan will be disbursed via the Central Bank of Argentina to a segregated US\$ denominated bank account held by the MOPW (under the control of DIGEPPSE) at the *Banco de la Nacion*. The US\$ will then be converted to AR\$ as required²² (based on funding requests from AySA to DIGEPPSE to meet/pay for upcoming/incurred Program expenditure) to meet payment obligations and to be deposited initially in a segregated AR\$ denominated account also held by the MOPW (under the control of DIGEPPSE) (also held at the *Banco de la Nacion*). From this account funds are then finally transferred to a separate AR\$ denominated AySA physical bank account²³ (also held at the *Banco de la Nacion*) set up for this specific programmatic/financing purposes. From this AySA separate bank account, payments will be made to suppliers/vendors/contractors (and to the Municipalities to pay the works cooperatives under the *Agua + Trabajo* and *Cloaca + Trabajo* programs that are implemented in coordination with the respective Municipalities²⁴). This arrangement will allow AySA to account for and know the exact exchange rates to use to record Program expenses (based on US\$ received and then converted to AR\$), thus eliminating refund problems at the end of the Program, due to possible exchange rate differences.
60. The Bank may decide, without formally extending the Closing Date, to disburse or approve the use of proceeds of the loan for WAs received within six months after the Closing Date for DLIs achieved by AySA before the Closing Date. Upon request, the Bank may decide to extend the period for receipt of such WAs.

3.2.2 Accounting and Financial Reporting

61. The Program's transactions will be recorded primarily in AySA's budget and accounting information systems maintained in Oracle. Every activity/works contract has a specific code (*Codigo Identificador*²⁵), that permits the identification and tracking of the activity/works within AySA's budget and accounting system (depending on the type of activities²⁶ and source of financing as well). AySA's accounting system also permits the tracking of expenditures following cost center (*Centro Responsable Estructura, CRE*²⁷) and functional/geographical classifications (*Centro Responsable Funcional, CRF*²⁸) and AySA has a detailed Chart of Accounts. A separate

²² This is normally done based on 2-month expenditure forecasts i.e. payment expected to be made by AySA in the next 2 months.

²³ AySA does not make foreign currency denominated payments; all of these payments are made in local currency using the equivalent value in AR\$.

²⁴ The Municipalities forward the certified works certificates to AySA for AySA to transfer the required funds to the Municipalities, who then make payment to the works cooperatives.

²⁵ As set out in AySA's internal documents labelled R-ABU-BU-001 and R-ABU-BU-003.

²⁶ These codes are able to distinguish between rehabilitation, expansion or renovation works, as well as other characteristics (such as: 1 1 2 – Ríos Subterráneos, 1 2 1 – Redes Primarias de Agua, 1 2 2 – Redes Secundarias de Agua, 1 2 3 – Medidores, 1 2 4 – Conexiones domiciliarias de agua, 1 2 5 – Elementos de Agua, 2 2 1 – Redes Primarias de Cloaca, 2 2 2 – Redes Secundarias de Cloaca, 2 2 3 – Cloacas Máximas, 2 2 4 – Conexiones de Cloaca, 2 2 5 – Elementos de Cloaca, 2 2 6 – Emisario, 3 0 2 – Estudios, 3 0 4 – Obra Civil, 3 0 5 – Obra Electromecánica, 3 0 8 – Instalaciones (Plantas, Pozos y Estaciones Elevadoras).

²⁷ For example: 90100-Inv. Compañía, 91000-Inv. Region Norte (sumador),91010-Inv. Region Norte,91020-Inv. Dist. San Fernando / Tigre.

²⁸ For example: SS-Regional Capital-300-399, RR-Comercial-Grandes Usuarios-400-439, EF-Económico Financiera-440-444, RP-Relaciones con la Prensa-445-449, DG-Dir. General-450-454, DJ-Asuntos Jurídicos-455-457, IN-Programa Educativo y Rel. Internacionales-458-459.

Annex will be included in the POM, detailing the activities that fall within the definition of the Program, to aid in the recording and tracking of the Program's expenditures. This Annex will be updated as and when changes in the underlying composition of the Program activities take place, that will also require the Bank's no objection.

62. The Program's transactions will also be recorded in e-SIDIF (under the general budget line/item code). This is done by the Ministry of Public Works (MOPW), based on information submitted by AySA to MOPW. Furthermore, the Federal Government system specially designed for the execution of multilateral finance operations, the System of Financial Administration and Control for Agencies Executing Foreign Loans (*Sistema de Administracion y Control Financiero para las Unidades Ejecutoras de Prestamos Externos*, UEPEX) will be utilized to record the Program's transactions financed from Source 22. UEPEX provides a good ex-ante internal control framework and it is considered adequate for accounting purposes. UEPEX can produce financial reports and accounting and financial staff are adequately trained to use and maintain the system. Reconciliations are also performed between the information reported in e-SIDIF and UEPEX.
63. AySA's ORACLE based accounting system, e-SIDIF and UEPEX will be used, to generate the Program's Annual Financial Statements using the cash basis, both in the currency of Argentina (Argentinian Peso-AR\$) and in United States Dollars (US\$). AySA has experience in preparing financial monitoring reports for other financiers. AySA will prepare the semesterly IFRs and submit the IFRs, no later than 60 days after the end of each reporting period. At the end of each fiscal year, AySA will prepare the Program Annual Financial Statements that will be audited. The final semester IFRs with accompanying notes, may serve as the Program's Annual Financial Statements. AySA will be responsible for liaising/coordinating with AGN for the audit of the Program's Annual Financial Statements.

3.2.3 Procurement Processes and Procedures

64. "*Manual de Procedimientos de Gestión de Contrataciones de Obras, Bienes y Servicios*" is the legal text regulating procurement in AySA and it is available for download on the website. The "*Manual de Procedimientos*" regulates procurement of works, goods, and services.
65. Open competitive bidding, named "*Licitación / Concurso Público*", applies when the call to participate is directed to an indeterminate number of possible bidders with the capacity to be bound and will be applicable when the estimated amount of the contract exceeds the minimum indicated in the table below. Requires publication of an invitation for bids at two newspaper of national circulation and AySA's website, at least 20 calendar days before the date for bid opening.
66. Limited competitive bidding, named "*Licitación / Concurso Privado*", applies when the call to participate is directed to vendors that have been registered in AySA's Registry or others by activity and backgrounds, and will be applicable when the estimated amount of the contract does not exceed the minimums indicated in the table below. The list of vendors to be invited are selected taking into account the information provided by, among others, any of the following sources: vendors registration, market analysis, technical specifications, specific experience and technical

capacity by the type of work, economic and financial capacity, immediate availability of the good or service to be contracted, supplier performance evaluation and geographical location.

67. Direct Contracting will be carried out by exception and its use is not limited by any monetary threshold, through the issuance of a purchase order or a contract when any of the 10 cases described in the “Manual de Procedimientos” occurs. All cases of Direct Contracts must be expressed in a report signed by the Director of the requesting area, explaining the reasons and circumstances that justify them or prevent the application of other procedures in a timely manner and the reasonableness of prices.

Procurement Methods

Rank	Conditions for use	Procurement method	Advertisement required
1	≤ ARS 80.000 (approximately US\$ 1.000)	Exceptional purchases or expenses, without issuance of Order shopping. Without price consultation, with approval of a Director	N/A
2	ARS 80.001 and up to ARS 400.000 (approximately US\$ 1.000 and up to US\$ 5.000)	No issue of Purchase Order. With two comparative budgets, at a minimum	N/A
3	ARS \$ 400.001 and up to ARS 2.500.000 (approximately US\$ 5.000 and up to US\$ 31.000)	Limited competitive bidding, to a minimum of 3 vendors	N/A
4	ARS 2.500.001 and up to ARS 5.500.000 (approximately US\$ 31.000 and up to US\$ 69.000)	Limited competitive bidding, to a minimum of 3 vendors, with quotations by closed envelope and simultaneously opening	N/A
5	ARS 5.500.001 to ARS \$ 80.000.000 (approximately US\$ 69.000 to US\$ 1M) for Goods and Services and up to ARS 120.000.000 for Works (approximately US\$ 1.5M)	Limited competitive bidding, to a minimum of 5 vendors, with quotations by closed envelope and simultaneously opening	N/A
6	> ARS 80.000.000 for Goods and Services (approximately US\$ 1M) and > ARS 120.000.000 for Works (approximately US\$ 1.5M)	Open competitive bidding	2 national newspapers AySA website

68. **Publication.** For the purchase of goods, the contracting of improvement and maintenance works and services (consulting and non-consulting services), the publication of the contracts is carried out as follows:

Procurement Process	Publication	Period for submission of bids
“Licitación Pública” or open bidding	2 national newspapers	20 calendar days before the date for bid opening
	AySA website	
“Concurso” or open bidding through “LEY de Compre Argentino y Desarrollo de Proveedores” (margin of preference) up	COMPR.AR website	5 working days before the date for bid opening

to ARS 8M or approximately US\$ 100.000	AySA website	
"Concursos" or open bidding through "LEY de Compre Argentino y Desarrollo de Proveedores" (margin of preference) above ARS 8M or approximately US\$ 100.000	COMPR.AR website	20 calendar days before the date for bid opening
	AySA website Official gazette	

69. **One envelope.** In the cases of evaluation of offers with single envelope procedures, the Pre-award Recommendation Commission will limit itself to analyzing the admissibility conditions of the offer with the lowest economic value. Only if the analyzed offer is declared inadmissible will the next offer be analyzed, continuing an order of increasing economic merit.

70. **Two envelopes.** When a prior evaluation of the technical offer is necessary, the presentation will be required in two sealed envelopes, one (No. 1) with the indicated technical offer and the other (No. 2) with the economic one, duly identified. Only technically prequalified economic bids will be opened, returning the economic envelopes of those not prequalified without opening. Said prequalification must include a technical report approved by the level authorized by the Purchase Request.

71. **Bidding documents.** Standard bidding documents for procurement of works, goods and services are published within the *"Manual de Procedimientos de Gestión de Contrataciones de Obras, Bienes y Servicios"* on Aysa website. The same standard bidding document (Bidding document and General Conditions) applies for consulting and non-consulting services. However, Special Conditions differ according to the contracting of the type of services to be contracted. The Bank reviewed a sample of the bidding documents used by AySA.

72. These bidding documents for procurement are organized as follows:

Works

Bidding document and General Conditions:

- Section I - General provisions: it sets out the objective, terminology, definitions and rules of interpretation.
- Section II - Instruction to bidders: this section provides information regarding, inter alia, the hiring system; preparation, submission, opening, and evaluation of bids (qualification, financial, legal and fiscal requirements); Bid Security and others documents to be submitted by the Bidder as part of its Bid; and contract award.
- Section III - General conditions: this section sets the representatives of the employer and contractor, general obligations of both parties, quality of materials and facilities, securities and guarantees, contract amendments, certification and payment, and sanctions and termination of contract.

- Annexes: includes the forms regarding bid submission, contractor performance, equipment, tools, and contract form.
- Special Conditions and technical specifications: this section specifies the criteria to pre-award the contract (qualification, financial, legal and fiscal requirements).

The lowest value admissible bid which ensures compliance with the quality and efficiency objectives pursued for the required works is awarded.

Goods

Due to the diversity of the goods and their special contracting specifications, the conditions of the bidding processes are detailed in the bidding document named "Special Conditions for procurement of goods". Said bidding documents are prepared together with the requesting area and describe: objective; estimated amount; technical specifications; information regarding preparation, submission, and evaluation of bids; securities and guarantees; contract award; delivery terms and payments; and general conditions of the purchase order.

The bid that - at a reasonable price - results the most convenient among those that ensure compliance with the defined quality and efficiency objectives and adequate delivery deadlines is the one to be awarded.

Non-consulting Services

Bidding document and General Conditions:

- Section I - General provisions: it sets out the objective, terminology, definitions and rules of interpretation.
- Section II - Instruction to bidders: this section provides information regarding, inter alia, preparation, submission, and evaluation of bids (technical quality of the offer in general, and especially for the specific type services; organization and methodology in carrying out the various tasks reflected in the offer; reliability of the proposed methods and compliance with the stipulated period for execution of the services); Bid Security and others documents to be submitted by the Bidder as part of its Bid; and contract award.
- Section III - General conditions: this section sets the representatives of the employer and contractor, general obligations of both parties, securities and guarantees, contract amendments, certification and payment, and sanctions and termination of contract.
- Annexes: includes the forms regarding bid submission.
- Special Conditions of contract and technical specifications: this section specifies the criteria (qualification, financial, legal and fiscal requirements) to pre-award to the lowest value admissible offer, which ensures the fulfillment of the objectives of quality and efficiency pursued.

Consulting Services

- Bidding document and General Conditions: it is the same document that is used for the contracting of services.
- Special Conditions for Consulting Services: this Section provides information to help consultants prepare their proposals (Technical and Financial Proposal). Information is also provided on the submission, opening and evaluation of proposals and award of contract. Through this competitive process the selection of the successful firm considers the quality of the proposal (technical) and the cost of the services (financial). The document shall specify the minimum score for the technical proposals (70%/80% approximately). The relative weight to be given to the quality and cost depends on the nature of the assignment (70/30 – 80/20 approximately). Among the proposals that are responsive to the requirements and are technically qualified, the proposal with the highest combined (technical and financial) score is considered the be awarded.

73. **Complaints.** There is single clause included in the special conditions of the open and limited competitive bidding documents by which bidders may make written objections to the bidding process subject to a prior deposit of an amount equivalent to one percent (1%) of the bid amount in AySA's bank account. Said amount is refunded if the complaint is favorably resolved. However, there is no complaints procedure in the *Manual de Procedimientos*, nor in the bidding documents regarding this matter. The Program Action Plan proposes to develop include an effective complaint procedure to be included in a clause of the bidding documents that regulates the activities to be carried out to manage the complaints that the bidders enter in a procurement process in order to question the evaluation of bids and award of contracts, due to inconsistency with or violation of the applicable procurement rules or evaluation criteria, and in general to any matter that is not clear to the bidders. The clause shall ensure a timely, fairly and meaningful review of the complaint, including a detailed description of the complaint procedure, all relevant documentation, facts and circumstances related to it, period to resolve it, etc. In addition, complete records of all debriefings and complaints and their resolution in a data base should be maintained to register, track and follow-up complaints linked to Program-related activities.

In the event of disputes during the execution of the contract, any controversy that arises between the parties in relation to the contract, its existence, validity, qualification, interpretation, scope, fulfillment or termination, is submitted to the formal justice process.

74. **Procurement information disclosure.** Bidding documents, clarifications and amendments, bid opening record and award recommendation with the results of the procurement processes are available and published on AySA's website <https://www.aysa.com.ar/>
75. **Reasonableness of costs.** The estimated valuation costs (without taxes) of each work, good or service requested is indicated in the specific request of the requesting unit or area at the very beginning of the procurement process, taking into consideration the existing market prices and conditions for the requested contracts. In those bidding processes with an estimated amount

beyond US\$ 150.000, witness price must be requested from the *Sindicatura General de la Nación* (SIGEN), the control body of the Executive and within its control universe are the Companies with state participation such as AySA.

76. **Inter-American Development Bank-procurement arrangements.** While drawing on the above described systems, some of IADB's-financed contracts, included in the Program, will be subject to specific procurement arrangements. Contracts financed by the IADB will be procured on the same basis (similar procurement principles, same team) as any other contracts under the Program and will be subject to IADB's own procurement policy, including specific bidding documents and procedures. IADB's operational procurement policies and procedures are consistent with the Bank Core Procurement Principles of the IPF Procurement Policy, and these rules provide assurance that Program funds will be used for the intended purposes with due attention to the principles of economy, efficiency, effectiveness, transparency and accountability.

3.2.4 Contract Administration

77. Regarding service expansion works, *Dirección de Contratos y Control de Gestión* carries out payment certificates controls as follow:

- Numerical controls on quantities and amounts: control of accumulated amounts with previous certificates; control of certified quantities; arithmetic control of certified amounts (price x quantity); justification of extension and additional; correspondence of redetermined prices vs. approved prices.
- Controls on the mandatory documentation: labor obligations, social security, insurance and other records).
- Control on taxes; validity of the invoice and coincidence with the certificate; purpose and amount of the securities.
- Other controls: advance payment deduction verification; compliance of stock material certificates; transfer of certificates and invoices authorization; and return of securities.

78. On the other hand, there is a specific procedure for the tracking and administration of purchase orders in which different units are involved according to their missions and functions. *Dirección de Compras y Almacenes* issues the purchase orders of works, goods or services and communicates them to both the awarded supplier and the requesting unit. Each unit oversees the purchase order management and administration and in the case of any breach by the supplier, the unit communicates it to the *Dirección*, who supports them in every issue related to the application of penalties and sanctions to suppliers, and acts as a link between the requesting unit, the supplier and the legal area.

79. Within the *Dirección* several areas fulfill different functions:

- *Gerencia de Administración de Riesgos*: verifies and approves the insurances presented by the vendor as provided in the respective purchase order prior to its execution.
- Requesting units: supervise and coordinate the delivery of the goods and / or services in a timely manner according to the conditions of the purchase order and request the

sanctions provided if the vendor fails to comply with their obligations.

- *Gerencia de Tesorería y Cuentas a Pagar*: verifies the invoices and manages their payment.

80. In addition, the result of the supplier's performance evaluation for the procurement of goods, improvement works, and maintenance and services are recorded in the Oracle Quality System.

3.2.5 Procurement Risks

81. Data shows that procurement processes implemented by AySA are transparent and competitive. In fact, open competitive bidding is the procurement method to be followed for contracts estimated to cost over US\$ 1M for goods and US\$ 1.5 M for works and are published in AySA's open access website and 2 national newspapers. Data for the period of 2016-2019 shows that 91% of the money spent for procurement of works followed open competitive bidding disclosed at its website.

82. Procurement staff are professional, experienced, and knowledgeable on policies and procedures, and although AySA has prior experience in implementing Bank IPF Operations, this will be the first PforR Operation. It is assessed that Program's procurement arrangements relying on AySA's system are acceptable in terms of procedures and present no major risk against result achievements with respect to procurement management.

83. Nevertheless, as was previously mentioned, the lack of an effective complaints mechanism that regulates the procedure to be followed may limit the fairness in procurement procedures and affect equal opportunities and treatment for bidders. Thus, a credible mechanism for addressing procurement-related complaints and providing recourse should be agreed and implemented.

3.3 Internal Control Framework

3.3.1 Internal Controls

84. The internal control environment to be used for the Program is anchored in Argentina's legal and institutional framework as well as AySA's internal approval processes and systems, that provide for reasonable segregation of duties, supervision, quality control reviews and reconciliation. The processes flows appear to be well understood with adequate control over and stewardship of Program activities and funds. Within the framework of its mission and adopting the best market practices, AySA has also decided to implement a Code of Good Corporate Governance.

85. All accounting and support documents are retained on a permanent basis, using a system that allows for easy retrieval for the authorized user. The General Conditions require the Borrower to retain all records (contracts, orders, invoices, bills, receipts, and other documents) evidencing eligible expenditures and to enable the Bank's representative to examine such records. They also require the records to be retained for at least one year following receipt by the Bank of the final audited financial statement required in accordance with the Legal Agreement or two years after the Closing Date, whichever is later. Borrowers are responsible for ensuring that document retention beyond the period required by the Legal Agreement complies with their government's regulations.

86. The Program's internal control system will be supported by the POM. The POM will comprise descriptions, flow charts, policies, templates and forms, user-friendly tools, tips and techniques to ensure that the approval and authorization controls continue to be adequate and are properly documented and followed with adequate safeguarding of the Program's assets. The POM should be prepared by AySA and be approved by the Bank and be maintained/updated throughout the Projects' life.
87. The Access to Public Information Law (Ley 27.275) regulates the right of access to public information. The Law, which considers "all government-held information" to be public, was approved by the National Congress in September 2016 and entered into force in September 2017. The Law provides procedures for processing information requests, covering obligations concerning disclosure, and the duty to provide data in an open format. AySA's "Information Transparency and Disclosure Policy" regulates the mechanism by which the requests for Access to Public Information that AySA receives will be made and treated, and the publication on the corporate website of Active Information, as established by Law 27.275.
88. In addition, relevant procurement information (bidding documents, clarifications and amendments, bid opening records and award recommendation) is made publicly available through AySA's accessible and widely available web site. However, key financial information about the PMOEM (budgets, budget execution reports and audit reports) are not made available to the public by AySA in an accessible form. To access AySA's annual financial statements, users have to request this information by filling out a form on AySA's website.
89. The assets used for providing the service and developing supplementary activities that were used by AASA were transferred by the National State to AySA, who received the possession, but not the ownership thereof. The inventory of the assets received at the beginning of operations by AySA was included in the Binding Instrument. AySA undertakes the administration and appropriate maintenance of the assets received or newly acquired by it. AySA is responsible to the National State and third parties for the correct administration and management of the assets used for the service, as well as for all the obligations inherent in their operation, administration, acquisition and construction within the scope established by the regulations in force and the plans approved.
90. AySA maintains detailed fixed asset registers, and there is a specific unit/department within AySA responsible for the asset monitoring. Assets are assigned unique identifier codes, to facilitate identification and tracking, with counts taking place at least once a year (as part of the preparation of AySA's Annual Financial Statements) and then reconciled with the accounting records. The sale or disposal of fixed assets is done throughout the year, following established norms and procedures. There are also detailed depreciation schedules utilized to reflect a truer and fairer picture of the value of these assets and to prepare AySA to be ready to purchase new assets once an asset gets worn out. According to the responsibilities and obligations arising from the Regulatory Framework and the Binding Instrument on such assets, AySA has taken an insurance coverage at the same replacement values of the fixed assets used by it for its operations, in order

to establish the amounts of principal in the insurance policy. Finally, upon termination of the concession, all fixed assets, whether transferred to AySA or acquired or constructed during its term of duration, shall be returned to the National State free of charge.

91. Bank reconciliations are prepared in most cases automatically via AySA's Oracle information system but can also be prepared manually. They are generated/prepared by someone other than those who process or approve payments and then are reviewed and approved by the accounting manager, and then submitted to the treasury manager for final approval.
92. There is clear definition and segregation of functions in procurement processes, where staff and committees participating in the processes work independently and are accountable for their individual contribution.
 - Expenditures authorization. Directors and Managers are responsible for authorizing expenditures and perform this function with the advice of specialized teams in budget and planning, procurement units, bid evaluation committees, legal department, financial management and contract administration units. Moreover, the Federal Internal and External Audit Units, *Auditoría General de la Nación and Sindicatura General de la Nación* (through price reference control) respectively, ensure compliance with legislation.
 - Contract award. Procurement decisions are made by competent authorities based on established processes included in the "*Manual de Procedimientos*". Requirements are issued with the following approval levels: (i) estimated amounts up to ARS 2.500.000 (approximately US\$ \$ 31.000): President, Directors, Managers, District Heads; (ii) estimated amounts beyond ARS 2.500.000 (approximately US\$ \$ 31.000): President and Directors. A recommendation signed by a commission made up of representatives of the requesting unit, procurement management and legal is required for award proposals over ARS 6.000.000.- (approximately US\$ 75.000) for goods and services, and ARS 8.000.000.- (approximately US\$ 100.000) for works. When the intervention of the commission is not needed, the evaluation of the offers, admissibility and convenience shall be justified by the competent areas. A different level of approval is required according to the amount of the proposed award (Board of Directors, President, Directors).
93. **Code of Best Integrity Practice of AySA.** AySA staff, whatever their rank and hierarchy, as well as any person acting on your behalf and / or representation, shall ensure compliance with the "Code of Best Integrity Practices" (*Código de Buenas Prácticas de Integridad*) and must act professionally, efficiently and diligently, in accordance with the principles of good faith, integrity and impartiality. Staff must also preserve the confidentiality of the information received in the performance of their duties in accordance with current regulations and with the Information Disclosure policy, and report to the Directorate of Integrity and Best Practices any theft, loss, use or improper access to information, data, computer equipment or products or systems of the company.
94. **Conflict of Interest Policy.** When AySA staff realize that they are or could be facing a conflict of interests, whether current or potential, must disclose it and apply the procedure established in

the “Conflict of Interest Policy” (*“Política de Conflictos de Interés”*). Any violation or potential violation of the terms of the code must be notified to the Directorate of Integrity and Best Practices who will report to the Board through the Integrity and Best Practices Committee. In each of the procurement procedures AySA will inform the names and positions of the staff with competence or decision-making capacity on the contracting procedure, including Board Members, Directors, Managers, etc., and will not hire natural or legal persons who do not present the Statement of Conflict of Interests provided in the Policy, in accordance with the provisions of Decree No. 202 (March 21, 2017) and Resolution 11-E (dated May 19, 2017) of the Secretariat of Public Ethics, Transparency and Fight against Corruption of the Ministry of Justice and Human Rights. Decree No. 202 establishes the signing of the statement by any person, firm or supplier who submits a bid in a public procurement procedure. Through this procedure bidders must state if they have a judiciary or extra judiciary conflict with the National Government or any relationship with the President, Vice-President, Chief of Cabinet, Ministers or any official involved in procurement processes. Compliance with this Conflict of Interest Policy in all its instances is monitored by the Internal Audit and Information Department, through the execution of the defined audit projects.

95. ***“Complaints, reports, investigations and disciplinary procedures protocol”*** regulates the mechanism by which complaints are received and managed within AySA in order to guarantee an adequate and timely response in the event of a breach of the Code of Best Integrity Practices or any of its policies, protocols, or complementary procedures. If the complaint is received by email or web form, it will be responded by acknowledging receipt, indicating the date and time of receipt, the identity of the person who received it, the procedure to follow and the data necessary for its follow-up, requesting, if applicable, any additional information or documentation that appears necessary or useful. The complainant is informed of the right to do so under reservation of identity, the AySA's policy against retaliation, the procedure to follow since the receipt of the complaint, indicating the estimated time of the procedure, the penalties provided for in the event that it is proven that the complaint was malicious, and the channels through which the process can be monitored. When the complaint is directed against a Director of the Board, the Integrity and Best Practices Committee, the Directorate of Integrity and Best Practices, the General Directorate, the Deputy General Directorate or any other high authority, this may be attended and managed by an independent third party, who must adapt to the provisions contained in the Protocol.
96. With regard to stakeholder participation and customer protection, ERAS is responsible for the Users’ Syndicate, which aims to protect the interests of users. This Users’ Syndicate is made up of representatives of the water users’ associations duly registered in the Sub-secretariat of Consumer Defense of the MOE. The Users’ Syndicate establishes its own internal operating rules, which must be approved by ERAS’ Board of Directors within 30 days. These meetings are held on ERAS’ premises at least once a month. Members review the issues considered to be of concern and relevant to the activity carried out by providers of the regulated area. The Users’ Syndicate issues opinions which must be considered by the Board of Directors. The administrative costs of

the Users' Syndicate are borne by the regulatory entity that sets its annual budget.

3.3.2 Internal Audit

97. AySA is subject to internal audit by the General Syndicate of the Nation (*Sindicatura General de la Nación*, SIGEN), which is the Federal Government's Internal Audit Agency, under the jurisdiction of the Executive branch. SIGEN is an integral part of the Federal Government's internal control system providing the following core services: (i) assessing the adequacy and effectiveness of the internal control system (internal audit of the Executive branch); (ii) supervising and coordinating the actions of the various Ministries/Agencies' Internal Audit Units (IAUs) and approving their audit plans; and (iii) compliance auditing of procurement processes and contracts.
98. SIGEN can carry out its audits, after prior notification to the organizational unit being audited; it documents its findings and reports directly and continuously to the President (Executive). SIGEN has unlimited right to information within the scope of their audit mandates. They have access to all premises and facilities and are authorized to conduct talks with any member of the organizational unit being audited to clarify questions.
99. SIGEN has conducted internal audit reviews relating to AySA, independent of the audits carried out by AySA's own IAU. In these cases, the IAU coordinates the audit between SIGEN and the respective AySA areas to be audited.
100. AySA's IAU²⁹ prepares an Annual Internal Audit Work Plan (Audit Plan), based on the guidelines issued by SIGEN. This Audit Plan is discussed in AySA's Audit Committee and then sent to the trustees who are members of AySA's oversight commission to confirm that everything stipulated in the previously defined guidelines has been met. Subsequently, the Audit Plan is sent to SIGEN for review and preliminary approval. This will also ensure that there is no unplanned duplication of audits or areas to be covered by SIGEN and the IAU. Once the Audit Plan is approved (including any revision required), the Audit Plan is discussed and approved by AySA's Board of Directors, before being sent to SIGEN for final approval. SIGEN has an information system to record/load the Audit Plan (with the details of all the audits to be carried out in the year). In the same system, the results of the audits are captured (once completed) including observations and follow-up actions required. The Audit Committee (meetings are held once or twice a month), reviews all audit reports. AySA's IAU does annual follow up of its recommendations.
101. The Bank reviewed the IAU's 2020 Audit Plan and found it comprehensive. This Audit Plan was reviewed/adjusted to take into account the impacts of COVID 19, including the isolation quarantine measures taken (and approved by SIGEN in June 2020) to ensure that whatever activities were planned for the second semester of 2020 were still viable. One of the activities

²⁹ The Internal Audit Department of AySA has also implemented a Quality Management System with the purpose of providing a professional internal audit service to:(i) provide the Company's Management with reliable information to take strategic decisions;(ii) ensure the operation of the internal control system of the Company; (iii) improve the Company's processes ;(iv) ensure compliance with current legal regulations with the coordination of SIGEN; (v) work in interdisciplinary teams, and encourage the development of skills and knowledge of its members; and (vi) detect, analyze and evaluate the requirements and expectations of the interested parties, risks and opportunities, as well as internal and external issues.

planned for in the 2020 Audit Plan is a review to ensure that AySA has prepared the 2019-2023 PMOEM in compliance with the Regulatory Framework (Activity # 12-4).

102. The IAU also plays a coordination role in the event that the Supreme Audit Institution of Argentina (*Auditoria General de la Nación*-AGN) initiates an audit. The IAU analyzes AGN's requested information/documentation and coordinates with the relevant areas within AySA, responsible for providing the requested information. Once AGN completes its review, it submits the findings to the IAU in order to obtain the corresponding responses from the different areas, which it then reviews itself before submitting the final response to AGN. The IAU acts as an interlocutor between the AGN and the different areas of AySA with the exception of the external accounting audit, which is coordinated by the Financial/Economic Department of AySA. When initiating an audit, AGN always requests a copy of any available internal audit reports produced by the IAU covering the sector to be audited, which it then relies upon to execute its own audit.
103. A review of the Program by AySA's IAU could be included as off-plan tasks (that is, using hours for unplanned work), since the 2021 Internal Audit Plan is finalized and consideration will be given to including a review of the Program in the 2022 Internal Audit Plan. To the extent that internal (or external) audit reports become available in the future relating to the Program specifically, the status of the auditors' findings and recommendations will be followed up, during supervision missions.

3.3.3 Program Governance and Anticorruption Arrangements

104. The Criminal Code (Law No. 11.179) establishes responsibilities, accountabilities, and penalties for officials and citizens in relation to acts of corruption. Furthermore, Law No. 27.401 establishes criminal liabilities related to bribery, traffic of influences and illicit enrichment, inter alia, for both domestic and foreign companies, state-owned or not.
105. In Argentina, bribery offences, whether domestic or foreign, are Federal crimes. Investigations may be initiated by a complaint made by any person to the police, public prosecutor, or judge. Allegations of corruption could be filed at the Office of Anticorruption either by e-mail, anonymously or with protection of identity, at the *Procuraduría de Investigaciones Administrativas* or at the government agency where the offence took place.
106. Public officials who become aware of the commission of a crime while performing their duties, must report it to the authorities. Enforcement authorities are legally required to commence the investigation once becoming aware of a bribery allegation. The investigation is conducted by the investigating judge or can be delegated to a public prosecutor. Once the investigation is completed, the judge may decide whether the matter should move to the oral trial stage, in which case a separate judge or judicial panel conducts the trial until its completion. There is thus institutional capacity to monitor and address governance and corruption issues.
107. The World Bank's Institutional Integrity Vice-Presidency (INT) may also, jointly with the Borrower and/or AySA or on its own initiative, investigate any allegations or other indications of Fraud and

Corruption (as defined in the ACG) in connection with the Program or any part of the Program. In all such cases the Borrower and AySA will collaborate with INT to acquire all records and documentation that INT may reasonably request from the operation regarding the use of the Program financing. If the Borrower or the Bank determines that any person or entity has engaged in Fraud and Corruption (as defined in the ACG) in connection with the Program, the Borrower will take timely and appropriate action, satisfactory to the World Bank, to remedy or otherwise address the situation and prevent its recurrence.

108. In order to implement the Bank's Anticorruption guidelines for PforR operations, it has been agreed that any expenditures arisen out of contracts given to individuals or firms debarred by the Bank or under suspension by the Bank are not eligible for Bank financing under the Program. The external auditors' TOR will include a requirement to review Program expenditures to confirm that contracts are not awarded to debarred or suspended firms.
109. AySA will immediately inform the Bank (through e-mail and official letter) of any complaint, claim or allegation related to fraud and corruption which AySA either receives or of which AySA becomes aware; in addition, every semester (together with the Program Monitoring Reports) a report will be prepared containing all alleged cases, with an updated status of the respective actions taken. AySA will immediately provide the Bank with all the records, documentation and information that the Bank may request with respect to such issues. In the event that the Bank decides to conduct its own investigation, the Bank may request the government and/or AySA to exercise its/their legal rights and remedies (under the relevant contract/s) so as to obtain all information, records and documentation that the Bank may request, and provide these to the Bank. This process does not limit the rights of the Bank to also make direct requests for information from individuals or contractors who are recipients of Bank financing. In line with the obligations arising under the Anticorruption Guidelines, the government and AySA should ensure that individuals or contractors who are recipients of Bank financing are aware that the Bank may decide to exercise this option. If the Bank determines that it has not been able to receive the documentation, records or information requested by the Bank directly and/or through AySA, the Bank may declare the relevant expenditure ineligible for Bank financing under the Program. Furthermore, should the Bank conclude that a sanctionable offense has occurred, it may decide to pursue sanctions against the individual or company in line with the Bank procedures.

3.4 Auditing

3.4.1 Program Audit

110. There are no current audits of the PMOEM specifically. AySA's own Annual Financial Statements have however been audited by an associate firm (*Pistrelli, Henry Martin y Asociados S.R.L*) within Ernst and Young's (E&Y) Global Network. The E&Y associated auditors expressed an unmodified audit opinion on AySA's 2019 Annual Financial Statements but did include an emphasis of matter paragraph indicating that AySA is dependent on the transfers from the National Government, to finance its operations including the PMOEM. Both AGN and SIGEN expressed a similar opinion, in their review of AySA's 2019 Annual Financial Statements.

111. For purposes of the Program, the external audit of the Program's Annual Financial Statements will be conducted by AGN. The AGN is the current auditor for Federal-level projects being financed by the Bank and has the adequate capacity to deliver a quality audit.
112. The external auditor will follow agreed TOR acceptable to the Bank and will conduct the audit in accordance with either the International Standards for Supreme Audit Institutions (ISSAIs), a framework of standards formulated by The International Organization of Supreme Audit Institutions (INTOSAI) or national auditing standards if, as determined by the Bank, these do not significantly depart from international standards.
113. The audited Program Annual Financial Statements (that is, the fiscal years' last semester IFR) will also be prepared in accordance with accounting standards acceptable to the Bank (that is, IPSAS issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants or national accounting standards where, as determined by the Bank, they do not significantly depart from international standards).
114. The auditors will be required to issue an opinion on the Program's Annual Financial Statements and produce a management letter in which any internal control weaknesses are identified, with a view to contributing to the strengthening of the control environment. The auditor's report will be submitted to the Bank no later than six months after the end of the fiscal year. The Bank will review the audit report and will periodically determine whether the audit recommendations are satisfactorily implemented.
115. The Bank also requires that the Borrower disclose the audited Program's Annual Financial Statements in a manner acceptable to the Bank and following the Bank's formal receipt of these statements from the Borrower, the Bank will also make them available to the public in accordance with The World Bank Policy on Access to Information.

3.5 Procurement and Financial Management Capacity

3.5.1 Staffing Should be Adequate in Both Numbers and Experience

116. AySA has a team of fiduciary staff (FM and procurement) and is responsible for monitoring the implementation of the Program's integrated fiduciary aspects. Staff are professional, experienced, and knowledgeable on governmental policies and procedures, and although they have prior experience in implementing Bank IPF Operations, this will be the first PforR Operation.

3.5.1.1 Procurement

117. *Dirección de Contratos y Control de Gestión*. Oversees managing the bidding and contracting processes of service expansion works, providing support to the *Dirección de Inversiones* in the execution process through administrative and regulatory controls on the payment certificates and the calculation methodology of price adjustments, preparing information on Economic and budgetary nature necessary for the management of the works plan.
118. Within the *Dirección de Contratos y Control de Gestión* several areas fulfill different functions:

- *Gerencia de licitaciones y contratos.* Develops the planning and management of bidding and works contracts, helping to achieve the infrastructure development objectives, implementing the policies, strategies and objectives elaborated by the Dirección de Contratos y Control de Gestión and the Dirección de Inversiones.
- *Gerencia de control de gestión.* Coordinates the necessary actions in order to carry out a transversal control of the works process, based on the information that results from it, ensuring material, budgetary and formal compliance in the processes of its competence and generating useful information for decision-making, as well as to comply with internal and external formal requirements.
- *Control de redeterminaciones de precios.* Develops the control management of price adjustment of infrastructure works, in terms of calculation methodology, compliance with current regulations and formal and administrative aspects of the presentations made by the respective works management.
- *Modificaciones Contractuales y Asesoramiento Legal.* Provides legal advice to the on specific issues regarding the bidding process, on modifications of specifications and contracting procedures, and on the formalities required to support documentary evidence and substantiate modifications and terminations.

119. *Dirección de Compras y Almacenes.* Is in charge of the procurement of goods and contracting of improvement and maintenance works and services, as well as the planning and distribution of materials for AySA, and prepares and monitors the procurement plan, based on the planning of the needs of the different areas.

3.5.1.2 Financial Management

120. The Directorate for IBRD and CAF loans, which is housed in the General Administrative Directorate, will be in charge of all aspects of Program monitoring and reporting. This unit currently houses one director, three managers, and nine technical staff, including the fiduciary and administrative functions and serves as a coordination unit with all other Departments in AySA in charge of planning, implementing and monitoring of the PMOEM. This unit has solid experience in implementing complex projects and is taking the necessary actions for programming and budgeting and is the same unit in charge of coordinating all actions related to the *Matanza-Riachuelo* Basin Sustainable Development Project (P105680), financed by the Bank.

4. Program Systems and Capacity Improvements

Summary of Program Systems and Capacity Improvements

Risk	Mitigation Action	Timing	Type of Action
Unfamiliarity with the Program for Results (PforR) Instrument	Prepare Program Operational Manual	By Negotiations	

Risk that contracts will be awarded to firms and/or individuals debarred or suspended by the Bank	TOR for the external auditors will include a requirement to review Program expenditures for ineligible contracts.	Annual	External Supervision
	Eligibility verification to ensure that any person or entity debarred or suspended by the Bank or by another multilateral institution with which the Bank has signed a cross debarment agreement is not awarded a contract under the Program during the period of such debarment or suspension	During implementation	PAP
Lack of an effective procurement-related complaints procedure in the bidding documents	Preparation and implementation of a clause in the bidding documents on the handling of complaints, which includes a detailed description of the procedure through which a timely and fair revision of the complaint is ensured.	During the first 12 months of implementation	PAP
Amount of Program Expenditures may be insufficient to cover the withdrawn loan balance and AySA dependence on transfers from the National State for the execution of the PMOEM reflected in the Program Annual Financial Statements	Review of the semesterly IFRs and close monitoring and coordination to ensure the necessary budgetary support is provided by the National Government. Close implementation support to be provided by the Bank to help establish the arrangements to produce the Program Annual Financial Statements	During implementation	Bank Supervision
Fraud and Corruption	Promptly inform the Bank of any credible and material allegations of fraud and/or corruption regarding the Program as part of the overall Program reporting requirements.	Semiannual	PAP

5. Implementation Support

1. The proposed fiduciary implementation support includes the following:

- (i) Reviewing the implementation progress, focusing on the achievement of the Program results and implementation of the Action Plan;
- (ii) Monitoring the performance of fiduciary systems and audit reports, including implementation of the PAP and application of the PforR ACG;
- (iii) Monitoring the PforR financial statement reporting process and assisting the client as necessary;

- (iv) Monitoring changes in fiduciary risks of the Program and, as relevant, compliance with the fiduciary provisions of legal covenants;
- (v) Reviewing the Program implementation with the sector team to assess the timeliness and adequacy of the Program funds appropriation; and
- (vi) Continually assessing and monitoring the performance of the FM and procurement systems under the Program and providing suggestions for improvement.