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## **NICARAGUA**

### **PUBLIC SECTOR FINANCIAL MANAGEMENT SYSTEM MODERNIZATION PROJECT (NI-L1033)**

### **LOAN PROPOSAL**

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ELECTRONIC LINKS	
<b>REQUIRED</b>	
1.	<i>Development Effectiveness Matrix (DEM) – Questionnaire</i> <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35067982">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35067982</a>
2.	Annual work plan <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35311202">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35311202</a>
3.	Monitoring and evaluation arrangements <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35286929">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35286929</a>
4.	Procurement plan <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35300743">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35300743</a>
<b>OPTIONAL</b>	
1.	Previous IDB and World Bank operations in financial management <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35068560">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35068560</a>
2.	Financial Management System Modernization Project <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35286892">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35286892</a>
3.	Institutional capacity assessment – Financial Management System Modernization Project <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35247340">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35247340</a>
4.	Cost of the Financial Management System Modernization Project <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35254219">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35254219</a>
5.	National Human Development Plan <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35286885">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35286885</a>
6.	Analysis of Law 550 <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35245772">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35245772</a>
7.	Operating Manual <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35300723">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35300723</a>
8.	Cost-benefit analysis <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35300738">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35300738</a>
9.	Operational Risk Assessment Framework – prepared with the World Bank <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35303833">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35303833</a>
10.	Presentation to civil society on the Financial Management System Modernization Project <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35312052">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35312052</a>
11.	Project execution plan <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35312267">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35312267</a>
12.	Comments on the Public Sector Administrative Contracts Law <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35316016">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35316016</a>
13.	SIGFA diagnostic assessment <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35331129">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35331129</a>
14.	Safeguard screening form for classification of projects <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35072567">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35072567</a>

## ABBREVIATIONS

DGAF	Dirección General Administrativa Financiera [Financial Management Division]
DGCE	Dirección General de Compras del Estado [Government Procurement Department]
DGCG	Dirección General Contabilidad Gubernamental [Government Accounting Department]
ECF	Extended Credit Facility
FSO	Fund for Special Operations
GDP	Gross domestic product
IAS	International Accounting Standards
IMF	International Monetary Fund
OC	Ordinary Capital
PEFA	Public Expenditure and Financial Accountability
SIBE	Sistema de Inventarios de Bienes del Estado [Government Asset Inventory System]
SIGADE	Sistema de Gestión y Administración de Deuda Pública [Public Debt Administration and Management System]
SIGAF	Sistema Integrado de Gestión Administrativa y Financiera [Integrated Administrative and Financial Management System]
SIGFA	Sistema Integrado de Gestión Financiera y Auditoría [Integrated Financial Management and Audit System]
SISCAE	Sistema de Contrataciones de la Administración del Estado [Government Procurement System]
SNIP	Sistema Nacional de Inversión Pública [National Public Investment System]
SWAp	Sector-wide approach
TRANSMUNI	Transferencias Municipales [Municipal Transfers System]
UAI	Unidad Auditoría Interna [Internal Audit Unit]

## PROJECT SUMMARY

### NICARAGUA PUBLIC SECTOR FINANCIAL MANAGEMENT SYSTEM MODERNIZATION PROJECT (NI-L1033)

Financial Terms and Conditions				
Borrower: Republic of Nicaragua Executing agency: Ministry of Finance and Public Credit			OC	FSO
		Amortization period:	30 years	40 years
		Grace period:	5 ½ years	40 years
		Disbursement period:	5 years	5 years
Source	Amount (US\$ million)	Interest rate:	Single Currency Facility (fixed)	0.25
IDB – Fund for Special Operations (FSO):	5.0	Inspection and supervision fee:	*	N/A
IDB – Ordinary Capital (OC):	5.0	Credit fee:	*	N/A
World Bank	10.0	Currency:	U.S. dollars	U.S. dollars
European Union	2.4			
Total	22.4			
Project at a glance				
<b>Project objective:</b> The general objective of the project is to support the Nicaraguan government in its efforts to improve efficiency and transparency in public expenditure by adopting a new integrated conceptual model to modernize public sector financial management systems and processes. The project has the following components: (i) strengthening of the public sector financial management systems; (ii) modernization of technology and equipment; and (iii) implementation and training.				
<b>Special contractual clauses:</b> This is a joint sector-wide approach (SWAp) operation with the World Bank and the European Union that will use standardized financial reports and joint external financial audits. To the extent possible, the project will use country systems that add value to operational and financial management, helping to strengthen the country’s fiduciary capacity.				
<b>Exceptions to Bank policies:</b> None.				
<b>Project consistent with country strategy:</b>				
		Yes [ X ]	No [ ]	
<b>Project qualifies as:</b>		SEQ [X ]	PTI [ ]	Sector [ ]      Geographic [ ]      Headcount [ ]

\* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

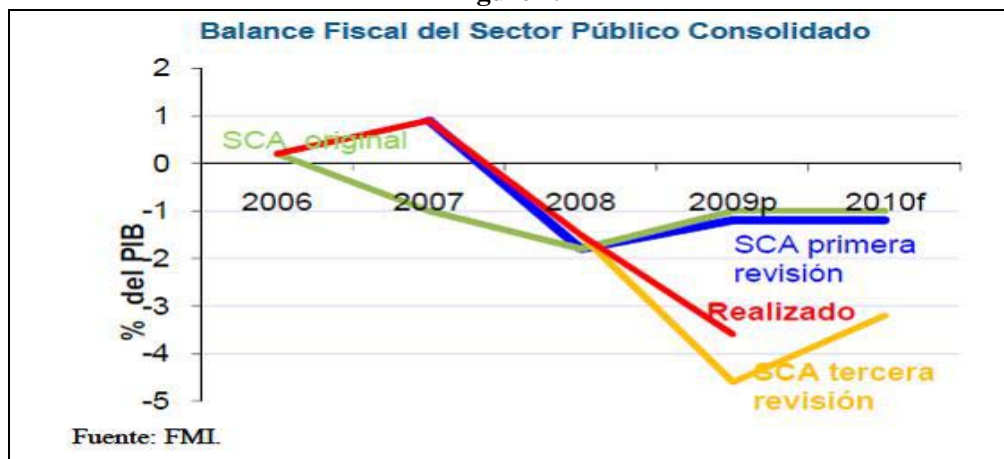
## I. DESCRIPTION AND RESULTS MONITORING

### A. Frame of reference, problem, and rationale

#### 1. Recent macroeconomic performance

- 1.1 Following a 1.5% contraction in its gross domestic product (GDP) in 2009, Nicaragua is recovering from the impact of the global recession. Most indicators show that its recovery began in the second half of 2009. The annual average of the monthly economic activity index rose 0.8% between October 2009 and March 2010, and GDP growth on the order of 1.5% to 2% is forecast for 2010.
- 1.2 Nicaragua has maintained macroeconomic stability and met the macroeconomic targets agreed on with the International Monetary Fund (IMF) under the Extended Credit Facility (see figure 1.1), including its international reserve and fiscal deficit targets. The consolidated public sector fiscal deficit target set for 31 December 2009 and agreed on for the second and third reviews was -4.6% of GDP, which it met despite the impact of the recession in 2009. To reduce the fiscal deficit in 2010, this target has been adjusted by two GDP points. Moreover, on 3 December 2009, Nicaragua's legislature approved: (i) a tax reform that will increase government revenue by at least 0.7% of GDP in 2010; and (ii) a budget with no increase in nominal spending over 2009. The current account deficit shrank from 24.2% of GDP in 2008 to 13.7% of GDP in 2009 due to the recession-driven drop in global oil prices and demand for imports.

Figure 1.1



- 1.3 On 9 July 2010, the Executive Board of the IMF satisfactorily concluded its discussion of the 2010 Article IV consultation with Nicaragua. According to forecasts, Nicaragua's fiscal deficit is projected to fall from 3.9% in 2009 to 3.3% in 2010 due to a recovery in government revenue as the global recession ends, an austere budget, and an increase in the social security contribution rate. Despite an encouraging fiscal performance, pressures are afoot to raise the cash subsidy paid to government workers earning less than 5,500 córdobas (US\$260). Roughly 137,000 public employees will receive the payment, which will cost 509 million córdobas (US\$25 million) for the remainder of 2010, equivalent to 0.4% of GDP and 4.9% of

government spending on wages and salaries. In this context, offsetting measures will be needed to ensure the medium-term sustainability of public finances.

## **2. Modernization of public finances**

- 1.4 The Nicaraguan government has pursued an ambitious agenda of reform in the area of financial management over the past 10 years, with the support of a number of operations financed by the IDB, the World Bank, and other bilateral donors ([see electronic link](#)). These operations, which are in the final phase of execution, complement the activities proposed under this project. The reform measures that have already been implemented include: (i) the introduction of a modern legal framework with the July 2005 approval of the Financial Management and Budget System Law (Law 550), which is meant to organize the government's financial and budget systems according to principles of efficiency, efficacy, transparency, legality, and accountability and includes the preparation of a medium-term budget framework and results-based management ([see electronic link](#)); (ii) the establishment of the Integrated Financial Management and Audit System (SIGFA), which has improved the legal framework and contributed to the development of the technology platform used by the central government; (iii) the application of the single-account principle, with the introduction of the treasury single-account system in córdobas and foreign currency; (iv) the adoption of technical standards for internal control in the public sector in line with international best practices; (v) the approval of the Access to Information Law; (vi) preparation of the Financial Management System Modernization Plan;<sup>1</sup> (vii) improvements to the Public Procurement System, mainly by extending good practices in procurement to the rest of the government and using electronic systems to integrate financial management; (viii) establishment of a new Procurement and Contracts Law; (ix) approval of the General Public Debt Law, which eliminates discretionary access to financing among public institutions.
- 1.5 However, despite this progress, major weaknesses in financial management and public administration persist. These include: (i) the lack of SIGFA coverage for the entire public sector, which makes it hard to compile and consolidate integrated public sector information; (ii) no record of the different steps in the expenditure process (commitment, accrual, disbursement), which makes it hard to monitor budget execution and obtain reliable, timely information on the floating debt, even though the SIGFA is set up to differentiate between these actions; (iii) lack of training for officials in sector agencies to learn how to prepare investment projects and lack of resources for ex ante evaluations, which would make it possible to establish a well-prioritized portfolio of projects; (iv) lack of capacity within the National Public Investment System (SNIP) to prepare reports for the Medium-term

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<sup>1</sup> In 2008, the Ministry of Finance prepared a Financial Management System Modernization Plan for the period 2008-2012. This plan is intended to strengthen the subsystems of the Nicaraguan government's financial administration system—budget, treasury, public credit, and government accounting—and the related systems of public investment, civil service, asset management, and procurements and contracts. Modernizing the Integrated Financial Management and Audit System (SIGFA) is part of this comprehensive plan to modernize the financial administration system.

Budget Office on the recurrent costs (operation and maintenance) of public investment projects; (v) lack of information for adequately performing the fiscal close-out, inasmuch as the source of discrepancies between revenue and expenditures, and claims and changes in cash flow are not identified; (vi) lack of a mechanism for consolidating the public sector budget automatically, as opposed to manually, which is how it is currently done, using data from the SIGFA-Autónomo<sup>2</sup> and the Municipal Transfers System (TRANSMUNI);<sup>3</sup> (vii) lack of coverage of the Treasury Single Account, which does not include the decentralized and autonomous entities because they do not have a transactional SIGFA to support financial operations; and (viii) general operational weaknesses in the SIGFA and obsolete technology that will be phased out within a few years. In addition, the SIGFA is not a multiyear or a multicurrency system, so calculations, reconciliations, and currency conversions must be done manually in Excel (outside the system), compromising the quality and reliability of the information.

**B. The government's strategy**

- 1.6 In the face of steady deterioration in the global economic environment, the Nicaraguan government has recognized the importance of maintaining a prudent fiscal policy as reflected in its reduction of primary expenditure in the budget approved for 2010. It has also committed to introducing structural reforms to ensure macroeconomic stability, achieve sustained economic growth, and reduce poverty.
- 1.7 In addition, the Nicaraguan government has developed the Financial Management System Modernization Plan, with the general objective of identifying priority actions that will help modernize public finances, mainly by strengthening the systems that make up the government's financial management system. This entails optimizing the critical processes performed by the parties responsible for implementing Law 550, the Financial Management and Budget System Law, which establishes the following systems: (i) budget, cash management, public credit, and government accounting; and (ii) public investment, civil service, asset management, and procurements and contracts. Modernizing the SIGFA and the Ministry of Finance's Internal Audit Unit is part of this comprehensive plan.

**C. The Bank's country and sector strategy**

- 1.8 The objective of the Bank's country strategy with Nicaragua is to support the Nicaraguan government in its efforts to reduce and manage the vulnerabilities that inhibit the country's growth and social equity, by contributing to five objectives in the government's plan: (i) fiscal sustainability; (ii) reliability of the electric power supply and improvement of the existing road system; (iii) improvements in the management and coverage of social services, including the development of a social welfare system; (iv) productive development; and (v) improvements in institutional

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<sup>2</sup> SIGFA-Autónomo is the system specifically designed to compile information on the public sector's autonomous entities, which is needed to perform the close-out process for the consolidated public sector.

<sup>3</sup> The SIGFA-Autónomo does not yet include information on revenue, only spending. The TRANSMUNI records information on all municipalities. However, due to rules and regulations, there is a delay in the entry of revenue and spending information.



management for natural disaster prevention. The proposed operation will strengthen the SIGFA, which encompasses the financial management system (accounting, budget, public credit, and cash management), the administrative and civil service systems, government procurements and contracts, public assets, and the Public Investment System, all in accordance with the principles of management by results.

#### **D. Objectives and structure**

- 1.9 The general objective of the project is to support the Nicaraguan government in its efforts to improve efficiency and transparency in public expenditure by adopting a new integrated conceptual model to modernize public sector financial management systems and processes.
- 1.10 **Specific objectives.** The project has the following objectives: (i) support efforts to strengthen the administrative and financial management system; (ii) implement a new administrative and financial management system for central government institutions that reflects a management-by-results approach; and (iii) design and develop a program to provide training and implement the new system within the central government. The project has the following components:
- 1.11 **Component I. Strengthening of the public sector financial management systems.** This component will strengthen the subsystems of the new Integrated Administrative and Financial Management System (SIGAF). It has the following subcomponents:
- 1.12 **Subcomponent I. Consolidation of the budget system.** This subcomponent will support efforts to strengthen the strategic medium-term budget planning and management process by linking the National Human Development Plan and the National Planning System. The subcomponent will facilitate budget execution, modifications, and assessment, introducing a management-by-results approach, consistent with the National Human Development Plan and linked to the SNIP and the economic and fiscal review. As a result of these measures, budget formulation and administration functions will be decentralized to the level of executing units, which will participate fully in the process.
- 1.13 **Subcomponent 2. Consolidation of the accounting system.** This subcomponent will support efforts to improve the capacity of the Government Accounting Department (DGCG) to ensure that the system provides reliable information as it is needed for decision-making. The following activities will be supported: (i) the harmonization of budget classifiers with the 2001 edition of the IMF Government Finance Statistics Manual, as well as with the chart of accounts; and (ii) the preparation of: (a) consolidated financial statements for the central government; (b) fiscal statistics; (c) releases of information for the national accounts; and (d) various models for presenting information in response to requests by donors, lenders, the oversight agency, and the general public.
- 1.14 The Government Asset Inventory System (SIBE) is among the systems that will be subject to activities for consolidation of the accounting system. Specifically,

procedures will be developed for cataloguing assets, managing stores, and administering fixed assets and their impact on the budget and government accounts, considering the transactional cycles of administrative operations.

- 1.15 **Subcomponent 3. Consolidation of the cash management system.** This subcomponent will support an institutional reengineering process to transform the General Treasury of the Republic into the Government Financial Management Office, with the capacity to comprehensively and transparently schedule and administer the flow of treasury funds in coordination with monetary policy and budgetary programming. The Treasury Single Account will include all central government resources. It will enable electronic payments to suppliers and interoperability with the Resources and Revenue Management System, the Central Bank of Nicaragua, and the commercial banking system, for functions related to revenue collection and payments by the government. Tax system activities will be integrated, such as the documentation of revenue from the time it is received as cash on hand or at banks to its actual deposit into the treasury accounts, bank reconciliation, and entry into the accounting records, as will processes involving nontax revenue, such as from the sale of goods and services and other own resources of government institutions.
- 1.16 **Subcomponent 4. Consolidation of the public credit system.** This subcomponent will support efforts to strengthen the management of public debt resulting from external and domestic borrowing by using the Public Debt Administration and Management System (SIGADE) and its interface with the SIGAF. Efforts will be made to ensure that public debt is consistent with the government's public policies, as well as to develop specialized analytical expertise in public debt management.
- 1.17 **Subcomponent 5. Consolidation of the government procurement and contracts system.** This subcomponent will support a review of the legal framework, implementation of an electronic procurement system, and development of management tools for each authorized procurement or contract procedure, in accordance with current laws and regulations and considering the transactional cycles of the administrative operations that are initiated from: (i) the procurement plan; (ii) the purchase requests; (iii) the steps in the procurement process, i.e., preparation of bidding documents, receipt of bids and proposals, comparative charts, and awards; (iv) issuance of purchase orders and their automatic entry in the budget of expenditures as commitments; and (v) monitoring of purchase orders.
- 1.18 **Subcomponent 6. Consolidation of the civil service.** This subcomponent will support activities to develop procedures for each one of the human resources management and job classification systems, in accordance with the laws and regulations in force, from: (i) schedule of posts and positions in the central government related to the organizational level and the programmatic level; (ii) administrative procedures for hiring, reassignment, and termination of staff; (iii) personnel recordkeeping; (iv) generation of payrolls for permanent and temporary employees in the central government and automatic posting to the

expenditure budget and accounting records; (v) time tracking; and (vi) performance evaluation.

- 1.19 **Subcomponent 7. Consolidation of the National Public Investment System (SNIP).** Subcomponent activities will support the development of a multiyear public investment program for the central government, which will identify the life cycle of each project and its impact on the medium-term budget framework (additional public and local counterpart borrowing needs), the record of execution in the budget, accounting, and its technical and financial evaluation. In addition, procedures will be developed to create an integrated project bank and to help the Nicaraguan government prepare its public investment strategy in line with the National Public Debt Strategy.
- 1.20 **Subcomponent 8. Consolidation of the Internal Audit Unit (UAI).** Subcomponent activities will support the design and implementation of an internal audit manual in accordance with the technical standards for internal control and the government's audit standards, duly approved by the Office of the Comptroller.
- 1.21 **Component II. Modernization of technology and equipment.** This component has the following subcomponents:
- 1.22 **Subcomponent 1. Identification and implementation of the technology architecture and solution.** The objective of this subcomponent is to identify and implement the technology architecture and solution represented by the SIGAF. The new information system will be based on the following premises: (i) portability, which refers to the ease with which it can be adapted to a range of technologies; (ii) efficient use of resources (telecommunications, hardware, etc.), in order to lower operating and sustainability costs; (iii) interoperability, which enables the integration and exchange of data with other information systems; and (iv) security, to ensure that information is safeguarded and has a high degree of reliability, including a continuity (backup) plan. In addition, the architectures must be explicit and compatible. This means that clear mechanisms for identifying their components, layers, and properties must be built into their design and construction.
- 1.23 In order to identify the architecture and technology, the architecture models of the systems to be acquired and developed must be described. To this end, the project calls for the preparation and approval of a strategic systems plan to guide the adaptation, configuration, and development of the SIGAF. The strategic systems plan will have the following chapters: (i) technology model; (ii) architecture model; (iii) technology infrastructure model; (iv) communications model; and (v) security model. The plan will also contain: (i) a detailed functional description of each process, system, and module; (ii) a detailed technical description of each project; (iii) costs; (iv) the resources involved; and (v) a detailed timeline by project. The plan will incorporate SIGAF testing documentation and the implementation plan.
- 1.24 **Subcomponent 2. Development of technical standards for all SIGAF systems.** Subcomponent activities include the development of technical standards for each SIGAF system. The objective is to establish an operational regulatory framework

that enables the interoperability of the administrative, planning, and financial systems.

- 1.25 **Component III. Implementation and training plan.** This objective of this component is to design and develop a SIGAF implementation program and training plan, to include at a minimum the following: (i) the conditions that each SIGAF module should meet prior to placement into production in the central agencies and administrative and financial offices; (ii) the conditions that each institution should meet for implementation of the SIGAF; (iii) the timeline for expanding implementation in the pilot units; and (iv) the material resource and minimum equipment requirements. This component has two subcomponents:
- 1.26 **Subcomponent 1. Configuration of the SIGAF.** The objective is to configure and run the SIGAF, with support for simultaneous implementation in the central agencies and the administrative and financial offices in the central government's line ministries.
- 1.27 **Subcomponent 2. Training and implementation.** Subcomponent activities will support the design and implementation of a training model to address both short-term needs (system implementation) and long-term needs, with the design of a permanent training system for the staff at agencies that make up the SIGAF.

**E. Main results and indicators**

- 1.28 During preparation of this operation, the main intermediate and final outcome indicators were identified (see Annex II). The most important outcome indicators are as follows:
- a. Fiscal and budget projections are analyzed from a multiyear perspective and are linked to budget and spending policies (PEFA Indicator 12).
  - b. Transparency has improved, as measured by public access to key fiscal information (PEFA Indicator 10).
  - c. The perceived quality of services and the information provided by the SIGAF has improved among users in and outside the public sector.
  - d. The time required for preparation and publication of central government financial statements has fallen (50%).
  - e. The cost of government procurements has fallen, as measured by the decrease in the gap between the cost of selected goods and services purchased by the government and by the private sector.
- 1.29 A cost-benefit analysis of the project was performed. The methodology applied for calculating the operation's economic feasibility was based on projections of the costs and benefits associated with the various components and activities ([see electronic link](#)).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **Project resources and disbursement schedule.** The project will have a total cost of US\$22.4 million. Of this amount, US\$10 million will be financed by the Bank, US\$10 million will be provided through a World Bank loan operation ([see budget annex](#)), and US\$2.4 million will be contributed by the European Union. Of the US\$10 million financed by the Bank, 50% will come from the Ordinary Capital resources and 50% will come from the Fund for Special Operations. The execution period will be five years from the effective date of the loan contract. The disbursement schedule is presented below.

**Table 2.1: Disbursement schedule (US\$ millions)**

Source of financing / year	1	2	3	4	5	TOTAL
IDB	1.19	2.07	3.59	1.65	1.50	10.0
World Bank	3.08	4.41	2.04	0.40	0.07	10.0
European Union	-	-	1.20	1.20	-	2.4

### B. Environmental and social risks

- 2.2 There are no environmental or social risks associated with the project. In accordance with the Environment and Safeguards Compliance Guidelines, the project was classified as a category “C” operation.

### C. Other key issues and risks

- 2.3 During project preparation, an analysis of the possible risks to the operation was conducted with the participation of the main stakeholders. The findings are described in the risk analysis report prepared jointly with the World Bank ([see electronic link](#)). The main risk to successful implementation of the project is the lack of permanent staff available to work exclusively on the operation. To mitigate this risk, consultants will be hired to provide technical and administrative and financial management support to the team in charge of project implementation. In addition, there are plans to design and implement a training program for all government employees. Another risk is presented by the new legal framework for government procurements, currently in preparation. To mitigate this risk, an exhaustive review of the new framework was performed and comments were submitted to the authorities ([see electronic link](#)).
- 2.4 Based on the assessment of institutional capacity in the area of procurements that was conducted as part of project preparation, the risk level assigned to the Ministry of Finance’s procurement unit, which will be in charge of project implementation, was determined to be high, especially with respect to management of procurement processes. However, steps have been devised to mitigate the risks inherent to the execution of this operation. Actions are already being taken to strengthen these systems and mitigate the risks faced by both the IDB and the World Bank. In

addition, there are plans to hire personnel to handle coordination, procurement, accounting, and monitoring and oversight ([see electronic link](#)).

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

#### **A. Summary of implementation arrangements**

- 3.1 The borrower will be the Republic of Nicaragua. The executing agency will be the Ministry of Finance, through its institutional structure, with support from the Financial Management Division (DGAF) and the Procurement Division, which will assume project responsibilities corresponding to their respective functions.
- 3.2 This joint sector-wide approach<sup>4</sup> will use the SIGFA Treasury Single Account mechanism to process payments to providers of goods and services, standardized financial reports, and joint external audits of project finances. The operation is being prepared jointly with a view to minimizing project administration costs and establishing greater coordination between the donors and the Nicaraguan government, in order to standardize processes and strengthen the control framework for implementation of the operation. Accordingly, to the extent possible, the project will use country systems that add value to operational and financial management. This will help build the country's sustainable fiduciary capacity. It will also make project funds more readily available, so that available funds can be quickly identified and processed, expediting the flow of resources.
- 3.3 For internal control of the project, a manual specific to the purpose will be used that is consistent with the Ministry of Finance's technical standards for internal control, compatible with the International Accounting Standards (IAS), and agreed upon with the donors. The manual will be evaluated by the Ministry of Finance's Internal Audit Unit and the Office of the Comptroller at the appropriate time. The Bank has completed the fiduciary analysis and found no additional risk.
- 3.4 An external private audit firm acceptable to the donors will be hired for the duration of the operation, subject to annual performance evaluations, to perform annual audits of project finances.
- 3.5 The Operating Manual, which will serve as a guide for project execution, will be completed during the loan negotiations. Its contents will include the following: (i) the functions and responsibilities of the various entities involved in project execution; (ii) a detailed description of all project activities, including eligibility criteria and technical specifications where applicable, aspects of execution, and schedules; (iii) financial management and procurement procedures; and (iv) delivery of reports.
- 3.6 For project processes, the flow of funds will come from external charge accounts located at the Central Bank of Nicaragua. Withdrawals will be made from these accounts as project costs are incurred, in accordance with the amount determined

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<sup>4</sup> The proposed operation is the foundation of the sector-wide approach, and each donor will be financing a group of specific products.

from each source of financing. For payments and records, payments to beneficiaries will be processed through the single account system by electronic transfer, and by check through revolving funds set up exclusively for local counterpart funds. Payment requests will be processed through the SIGFA, where all payments will be tracked. The SIGFA will also be used to record the budget events of project commitments and to plan and execute the Nicaraguan government's annual budget; and direct payments by the banks. The IDB conducted a fiduciary analysis and found no additional risk.

- 3.7 Disbursements from the entities providing project financing will be processed through the Central Bank of Nicaragua using open accounts for this operation. Revolving funds will be set up for this purpose. Disbursement vouchers will be delivered to the Bank electronically. The executing agency will be required to keep a financial plan, which it will align with the execution and procurement plans.
- 3.8 The Financial Management Division (DGAF) will be responsible for the financial execution of project activities, in accordance with the financing source assigned to each activity. The procurement plan will be used to link procurements and financing sources. The corresponding financing source will be identified in the annual work plan and the procurement plan and assigned in the project budget. The budget has been organized so that project components and expenses can be monitored by financing source. Accordingly, it will be necessary to establish a budget formulation process that enables the respective consultations to be made with the donor institutions.
- 3.9 Based on the SIGFA records, the DGAF will track the budget performance of the project, generate the agreed upon financial reports, and tally transactions in U.S. dollars and córdobas.
- 3.10 **Financial reports.** Financial reports for the project will be harmonized so that a single reporting model is used by the donor institutions and the Nicaraguan government, for monitoring the financial status of the operation. These reports, which are to provide information by financing source, have been agreed upon by the Ministry of Finance and the donors.
- 3.11 **Procurement.** Project procurements will follow the donor institutions' policies, rules, and procedures. A single procurement plan indicating the financing amount and source for each procurement item will be prepared for approval by the donors. Each donor will be responsible for prior reviews of the procurements in accordance with the financing information established in the procurement plan.
- 3.12 **Supervision.** Missions for ex post supervision of the fiduciary management of the project will be conducted jointly by the donor institutions, which will issue consolidated recommendations.
- 3.13 **Inventory.** The Government Asset Inventory System (SIBE), under the oversight of the Government Accounting Department (DGCG), will be used to control assets acquired under the project, which will facilitate post control of the operation. In the

event that assets are delivered to other sectors of the Nicaraguan government, such as to other ministries, the record in the SIBE will identify the party responsible for custody of the assets.

**B. Summary of arrangements for monitoring results**

- 3.14 Project monitoring will be conducted based on the statistics generated by each of the agencies involved, in the understanding that the operation, through its components, is intended to strengthen their information generating capacity and provide the sector with the tools it needs to create an integrated information management system for decision-making. To this end, it is crucial that the project be implemented using formal engineering methods. Accordingly, project management tools, to include bug-tracking and storage software, will be used that are consistent with the methods established, thus guaranteeing full traceability for all project components ([see electronic link](#)).
- 3.15 The Ministry of Finance, with the support of the donor institutions, has produced indicators with corresponding baseline information that will be used to measure the overall impact of the operation (results matrix). It will monitor these indicators in order to detect deviations from the implementation schedule in a timely manner and adopt corrective measures as necessary. In addition, it will note the physical and financial status of each one of the intermediate outcomes, as well as the overall status of the operation.
- 3.16 For supervision of project execution, the borrower, the IDB, the World Bank, and the European Union have agreed to hold project monitoring meetings, which will be scheduled in due course. Given the nature of sector-wide approaches, evaluation activities will focus on overall project performance, regardless of financing source. Proceeds from the loan will support the midterm and final evaluations to verify achievement of the expected outcomes presented in the results matrix.
- 3.17 The IDB, the World Bank, and the European Union will conduct quarterly technical inspection visits to: (i) evaluate project achievements; (ii) review budget allocations for the project; (iii) analyze the status of project implementation; (iv) evaluate fiduciary aspects; and (v) verify progress towards the outcome and output targets contained in the results matrix. During these quarterly visits, any necessary adjustments to the operation may be made in consultation with all of the entities involved. The borrower is responsible for compiling all data needed for project monitoring and evaluation. The authorities will cover the costs of compiling and processing the data, as part of the investments made with financing under this operation.
- 3.18 **Midterm evaluation.** The project team of the donor institutions, together with the executing agency, will perform a midterm evaluation 27 months into project execution or when 50% of project resources have been committed. The purpose of the midterm evaluation will be to measure progress towards the targets set in the results matrix and propose corrective measures as necessary. The evaluation will cover the following and other aspects: (i) the relevance of project activities to



achieving the established objectives; (ii) the outcomes achieved in the execution of the project-financed investment activities; (iii) the functioning of the system for monitoring the impact of project activities; (iv) the quality and content of the terms of reference prepared by the beneficiary entities; (v) the Ministry of Finance's functional and operational capacity for project administration and execution; (vi) any recommendations that are needed, in terms of adjustments to project expenditure items and activities to ensure fulfillment of the objectives; and (vii) the feasibility, scope, and timing of the ex post evaluation.

- 3.19 **Final evaluation.** The final evaluation will be conducted when 90% of the loan proceeds have been disbursed. It will focus on: (i) verifying the degree of fulfillment of the project and component objectives, in order to determine the overall progress made in terms of processes and systems during project execution; (ii) evaluate project design and implementation and identify lessons learned; and (iii) recommend the steps that should be taken and the design aspects that should be replicated or eliminated in similar operations.
- 3.20 **Financial statements and external audit.** The Ministry of Finance will deliver to the Bank annual financial statements duly audited by an independent firm acceptable to the Bank, within 120 days after the end of the respective fiscal year. The final audit report for the project will be delivered within 120 days after the last disbursement. In addition to the financial statements, it is recommended that within 60 days after the first six-month period in every year of project execution, the executing agency should deliver unaudited financial reports on the activities financed under each project component in the previous six-month period.

Development Effectiveness Matrix  
Summary

Indicator	Score	Maximum Score
<b>I. Strategic Relevance</b>	<b>Low-High</b>	
<b>1. IDB Strategic Development Objectives</b>	<b>2.5</b>	<b>10</b>
Country Diversification	2.0	2
Corporate Initiatives	0.0	2.5
Harmonization and Alignment	0.5	3.5
Beneficiary Target Population	0.0	2
<b>2. Country Strategy Development Objectives</b>	<b>9.6</b>	<b>10</b>
Country Strategy Sector Diagnosis	6.0	6
Country Strategy sector objective & indicator	3.6	4
<b>II. Development Outcomes - Evaluability</b>	<b>Highly Satisfactory</b>	
<b>3. Evidence-based Assessment &amp; Solution</b>	<b>8.0</b>	<b>10</b>
<b>4. Evaluation &amp; Monitoring Plan</b>	<b>5.8</b>	<b>10</b>
<b>5. Cost-Benefit or Cost-Effectiveness</b>	<b>10.0</b>	<b>10</b>
<b>6. Risks &amp; Mitigation Monitoring Matrix</b>	<b>7.5</b>	<b>10</b>
<b>III. IDB's Role - Additionality</b>		
<b>7. Additionality</b>	<b>7.0</b>	<b>10</b>
Technical Assistance provided prior the project	3.0	3
Improvements in management of financial, procurement, monitoring or statistics internal controls	4.0	4
Improvements in environmental, health and labor performance	0.0	3

**I. Strategic Relevance:** The project is an investment operation through a project structured jointly with the World Bank and EU to improve the Financial Management system in Nicaragua and expand its reach. Nicaragua is a D country in Central America. The project will use the monitoring and evaluation system of the Government to track progress and measure indicators. The Bank will support the purchase of a software for the country's M&E system. The country strategy has a diagnosis of the situation in the sector as presented in the Modernization of the Financial Management System Plan (PMSAF) developed in October of 2008. The project is supporting the implementation of this plan and is aligned with the country strategy objective and indicator.

**II. Evaluability:** The program is based on the implementation of a plan agreed between the government and the international community to address the pending issues in the area of financial management (including procurement). It is clearly geared towards achieving improved efficiency and transparency with an expectation to have an impact on the effectiveness of public expenditures. All indicators are SMART, and plans and resources are available to determine baselines and targets that are still needed. The project has a reflexive evaluation methodology, with a budget for a midterm and a final measurement of the indicators. The monitoring plan includes the identification of responsible units for each product, frequency of measurement, and source of the information. The cost-benefit analysis shows the reasoning to undertake the investment, it determines an IRR of 26% from implementing the whole project under the most optimistic scenario, and an IRR of 22% when benefits are diminished by 10% and costs are increased in the same magnitude. All risks are identified and mitigation measures detailed, but no indicators are included.

**III. Additionality:** The Bank has supported the PEFA evaluation which will be finished towards the end of the year, a diagnosis of the SIGFA, as well as a series of TCs to support the preparation of the modernization plan (PMSAF), the support for a results-based budget, strengthening of the Finance Ministry, support for the Public Investment System, among others. The program will also provide for increased access to information on public finances improving financial management and procurement in the public sector.

**NICARAGUA**  
**PUBLIC SECTOR FINANCIAL MANAGEMENT SYSTEM MODERNIZATION PROJECT**  
**(NI-L1033)**

**RESULTS MATRIX**  
**ARRANGEMENTS FOR MONITORING OF RESULTS**

Outcome indicators	Unit of measure	Base level	Cumulative targets					Frequency <sup>1</sup>	Comments
			Year 1	Year 2	Year 3	Year 4	Year 5		
Objective: To improve efficiency, performance orientation, and transparency in public expenditure									
Indicator 1. Fiscal and budget projections, analyzed from a multiyear perspective, are linked to budget and spending policies.	Text (Scores from “A” to “D”)	PEFA 2010 (TBD)				TBD		Variable	PEFA Indicator 12, with scores from “A” to “D”
Indicator 2. Public access to key fiscal information	Text (Scores from “A” to “D”)	PEFA 2010 (TBD)				TBD		Variable	PEFA Indicator 10, with scores from “A” to “D”
Indicator 3. Score indicating the perceived quality among users in and outside the public sector of services and the information provided by the SIGAF	Percentage	TBD			TBD		TBD	End of project	This indicator has been adapted from the ICT base indicator “Perception among users of the quality of public services” and will be measured using independent surveys.

<sup>1</sup> En los casos donde falta determinar los resultados, la línea de base estará lista antes de ir a Directorio

<b>Indicator 4.</b> Average time required for preparation and publication of central government financial statements	Number of months	6 mos.	6 mos.	6 mos.	6 mos.	6 mos.	3 mos.	Annual	This indicator has been adapted from the ICT base indicator “Average time for public services.”
<b>Indicator 5.</b> Gap in the cost of goods and services purchased by the government and by the private sector	Percentage	TBD	0% reduction	0% reduction	0% reduction	TBD		End of project	The Bank will conduct a special study upon project completion.
Output indicators	Unit of measure	Base level	Cumulative targets					Frequency	Comments
			Year 1	Year 2	Year 3	Year 4	Year 5		
Component 1									
<b>Intermediate outcome Indicator 1: Budget.</b> Number of institutions that use medium-term and results-based budgeting methodologies	Number and text	45 institutions use the medium-term budgeting methodology and present output indicators.		50 institutions use the medium-term budgeting methodology and present output indicators.	53 institutions use the medium-term budgeting methodology and present output indicators.	58 institutions use the medium-term budgeting methodology and present output indicators.		Annual	For the purposes of measuring this indicator, the methodology of the Medium-term Institutional Expenditure Framework will be used.
<b>Intermediate outcome Indicator 2: Accounting.</b> Financial statements of the central government issued by 2015 in accordance with the International Accounting Standards (IAS), the IMF Government Finance Statistics Manual (2001), and with legal mandates	Text	Financial statements of the central government are issued in accordance with the IAS.	Consolidated chart of accounts developed.	Structure of information in financial statements established.	Adaptation of accounting subsystem validated.	Adjustments made following validation of the subsystem.	Financial statements of the central government are issued by 2015 in accordance with the IAS and the legal mandates.	Annual	

<b>Intermediate outcome Indicator 3: Accounting.</b> Monthly budget performance information is published on the Ministry of Finance website, directly from the SIGAF central database.	Text	Budget performance information is published quarterly.				Monthly budget performance information is published within the first 15 days of the following month on the Ministry of Finance website, directly from the SIGAF central database.		Monthly	
<b>Intermediate outcome Indicator 4: Cash management.</b> Percentage of central government payments that are processed electronically in accordance with the Treasury single account procedures.	Percentage	2% of payments to providers and 29% of payments to public employees		15% of payments to providers and 29% of payments to public employees	40% of payments to providers and 29% of payments to public employees	80% of payments to providers and 40% of payments to public employees		Annual	This indicator has been adapted from the ICT base indicator "Electronic transactions of public services."
<b>Intermediate outcome Indicator 5: Public credit.</b> Percentage of external and domestic public debt recorded automatically through the SIGADE-SIGAF interface, automatically generating the corresponding multi-currency accounting records.	Percentage and text	5% of external debt	20%	40%	70%	100%		Annual	This indicator has been adapted from the ICT base indicator "Electronic transactions of public services."

<b>Intermediate outcome Indicator 6: Government procurement.</b> Percentage of central government procurements that are published on line using the SISCAE.	Percentage	20% through the SISCAE	40%	50%	70%	90%		Annual	
<b>Intermediate outcome Indicator 7: Government procurement:</b> Percentage of central government contracts processed online in the SIGAF	Percentage	0%	0%	0%	0%	25%		End of project	This indicator has been adapted from the ICT base indicator “Electronic transactions of public services.”
<b>Intermediate outcome Indicator 8: Civil service.</b> Percentage of central government institutions that have adopted the human resource management procedures, including for personnel files and the electronic generation of payroll	Percentage and text	5% of government institutions have adopted the new human resources procedures.		20% of government institutions have adopted the new human resources procedures.	35% of government institutions have adopted the new human resources procedures.	50% of government institutions have adopted the new human resources procedures.		Annual	
<b>Intermediate outcome Indicator 9: Human resources.</b> Percentage of the central government payroll that is integrated with the SIGAF	Percentage	0%	5%	20%	40%	60%		End of project	
<b>Intermediate outcome. Indicator 10: Public investment.</b> Percentage of central government public investment projects whose physical execution is being monitored through the SNIP project bank.	Percentage	60%	70%	80%	90%	100%		Annual	

COMPONENT 2									
<b>Intermediate outcome Indicator 1:</b> Development of the new integrated financial management system (SIGAF)	Text	Evaluation of the software development options	Technical specifications and bidding documents prepared	Software provider and master plan for adaptation in implementation	Software programs adapted, tested, and developed	New SIGAF in full operation		Annual	
<b>Intermediate outcome Indicator 2:</b> Installation of the technology infrastructure to support the SIGAF within the Ministry of Finance and other central government institutions	Percentage and text	Preliminary design document for the telecommunications network. Data center operating with 29 production servers (23 obsolete servers and 6 with a useful life of 2 years)		40% of new equipment installed at the data center	100% of new equipment installed at the data center	100% of central government institutions connected to the telecommunications network		Annual	
COMPONENT 3									
<b>Intermediate outcome Indicator 1:</b> Percentage of users in the central government and staff at the Ministry of Finance agencies trained to operate and maintain the system	Percentage	0%	0%	0%	100%			Annual	

<b>Intermediate outcome</b> <b>Indicator 2:</b> Implementation of the SIGAF in the institutions of the central government	Text	System limited to registration of financial transactions in the SIGFA			SIGAF installed and ready for operation on central servers at the Ministry of Finance	SIGAF in full operation at all central government institutions		Annual	
<b>Intermediate outcome</b> <b>Indicator 3:</b> Percentage of systems for administrative and financial management in the central government that have been replaced by the SIGAF	Percentage	0%				30%	50%	Annual	The Bank, in coordination with the government, will take inventory of parallel systems in years 4 and 5.



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**PROCUREMENT PLAN – SUMMARY**

No. <sup>1</sup>	Description of the contract and estimated cost of procurement	Procurement method <sup>2</sup>	Review (ex ante or ex post)	Source of financing		Prequalification (Yes/No)	Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
				IDB %	Local / Other %		Publication of specific procurement notice	Completion of contract		
GOODS										
1.	Financial management software (SIGAF): licenses and adaptation  Estimated cost = US\$8,202,000	ICB	Ex ante	100	-	NO	Q4 2011	Q4 2013	Pending	Application and registration in the SIGAF-SIGADE via the Internet
2.	New version of software – SIGADE 6.0  Estimated cost = US\$207,500	DC	Ex ante	100	-	NO	Q1 2012	Q4 2014	Pending	
3.	Computer hardware  Estimated cost = US\$37,500	NCB	Ex ante	100	-	NO	Q3 2011	Q4 2011	Pending	

<sup>1</sup> If there are a number of similar individual contracts to be executed in different places or at different times, these can be grouped together under a single heading, with an explanation in the comments column, indicating the average individual amount and the period during which the contracts would be executed. For example: an education project that includes school construction might include an item labeled “School Construction” for an estimated cost of US\$20 million and an explanation under the Comments column such as this: “This item encompasses some 200 contracts for school construction averaging US\$100,000 each, to be awarded individually by the participating municipal governments over a three-year period between January 2006 and December 2008.”

<sup>2</sup> **ICB**: International competitive bidding; **LIB**: limited international bidding; **NCB**: national competitive bidding; **PC**: price comparison; **DC**: direct contracting; **FA**: force account; **PSA**: Procurement through specialized agencies; **PAs**: Procurement agents; **IA**: Inspection agents; **PLFI**: Procurement in loans to financial intermediaries; **BOO/BOT/BOOT**: Build, own, operate/build, operate, transfer/build, own, operate, transfer; **PBP**: Performance-based procurement; **PLGB**: Procurement under loans guaranteed by the Bank; **PCP**: Community participation procurement; **QCBS**: Quality- and cost-based selection; **QBS**: Quality-based selection; **FBS**: Selection under a fixed budget; **LCS**: Least-cost selection; **CQS**: Selection based on the consultants’ qualifications; **SSS**: Single-source selection

No. <sup>1</sup>	Description of the contract and estimated cost of procurement	Procurement method <sup>2</sup>	Review (ex ante or ex post)	Source of financing		Prequalification (Yes/No)	Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
				IDB %	Local / Other %		Publication of specific procurement notice	Completion of contract		
NONCONSULTING SERVICES										
1.	Training services for DGCE/DCM staff  Estimated cost = US\$35,000	NCB	Ex ante	100	-	NO	Q2 2011	Q4 2012	Pending	
CONSULTING SERVICES										
1.	International consulting contract to design the functional framework of the accounting subsystem and the Government Assets System  Estimated cost = US\$64,000	CQS	Ex ante	100	-	NO	Q2 2011	Q4 2011	Pending	
2.	International consulting contract to adapt the SIGADE 6.0 – SIGFA interfaces to the SIGADE 6.0 – SIGAF version  Estimated cost = US\$40,000	CQS	Ex ante	100	-	NO	Q2 2011	Q4 2011	Pending	
3.	International consulting contract for the training methodology and an information technology consultant for the SIGAF  Estimated cost = US\$216,000	CQS	Ex ante	100	-	NO	Q2 2011	Q4 2011	Pending	
4.	National consulting contract to implement the SIGADE  Estimated cost = US\$67,200	CQS	Ex ante	100	-	NO	Q2 2011	Q4 2011	Pending	
5.	National consulting contract to implement the SIGADE  Estimated cost = US\$67,200	CQS	Ex ante	100	-	NO	Q2 2011	Q4 2011	Pending	
6.	International consulting assignment for project evaluations  Estimated cost = US\$370,000	CQS	Ex ante	100	-	NO	Q2 2011	Q4 2011	Pending	
7.	Consulting assignment for audits of project financial statements  Estimated cost = US\$100,000	CQS	Ex ante	100	-	NO	Q2 2011	Q4 2011	Pending	