

# DEVELOPMENT AND IMPLEMENTATION OF A NATIONAL PUBLIC PROCUREMENT SYSTEM

(TC-00-10-01-3)

## EXECUTIVE SUMMARY

<b>Executing agency:</b>	Technical Secretariat of the Office of the President (SETEC), in coordination with the Procurement Division of the Ministry of Finance.	
<b>Amount and source of financing:</b>	Modality:	Donation
	MIF:	US\$1,050,000
	Local counterpart:	<u>US\$ 450,000</u>
	Total:	US\$1,500,000
<b>Period:</b>	Execution period:	36 months
	Disbursement period:	42 months
<b>Objectives:</b>	The objective of the operation is to make the State procurement process more efficient, more competitive, and more transparent, with greater participation by the private sector.	
<b>Description:</b>	<p>The new system will need to address the country's unique demands, taking into account the different actors in the public and private sectors. The operation is divided into four components as follows:</p> <ol style="list-style-type: none"> <li>1. <b>Design and implementation of an electronic procurement information system [sistema electrónico de adquisiciones] (SEA)</b> that achieves greater efficiency and transparency in procurement by drawing on available information technology.</li> <li>2. <b>Updating of standards</b>, to establish basic regulations governing the use and management of the new system.</li> <li>3. <b>Improvements in internal control of the procurement process</b>, in order to establish mechanisms that verify the efficiency and transparency of the procurement process and ensure the accuracy and reliability of technical, administrative, and financial data.</li> <li>4. <b>Training for the private sector</b>, to extend training in procurement management, including the use and management of the system, to suppliers of goods, works, and services in the private sector, particularly small and medium-sized</li> </ol>	

companies. Provision is also made for developing campaigns to provide information on and promote the new procurement system to suppliers of goods, works, and services in the private sector, particularly small and medium-sized companies.

**Environmental and social review:**

The environmental feasibility of this operation is assured through the environmental and social protection measures contained in existing legislation and adopted for the activities that are recommended for each component (see paragraphs 4.13, 4.21, and 4.26). The Committee on Environment and Social Impact considered this operation on 23 March 2001. The Committee made no specific recommendations.

**Benefits and beneficiaries:**

The direct beneficiaries will be suppliers of works, goods, and services in the private sector, and in particular about 1,500 small and medium-sized businesses and microenterprises, that will have a dependable and efficient procurement system and reliable, comprehensive, and understandable information that opens up new and more equitable opportunities for doing business with the State. Suppliers will also benefit from a competitive and transparent market that serves as an incentive to develop better products and services at a fair price for purchasers in the public sector.

At the same time, the purchasers in the public sector stand to benefit from the existence of a suitable and efficient vehicle for conducting procurement more effectively at a fair price and a means of monitoring and controlling the entire process on a timely basis from programming to settlement of contracts. Estimates in countries with electronic procurement information systems show that, in terms of competitiveness and efficiency alone, the increased savings range from about 10% to around 30%.

**Special contractual clauses:**

**Precedent to the first disbursement:**

Evidence that the two consultants have been identified and hired for the Standards Unit (paragraph 6.5).

**Other special condition:**

The regulations governing the implementation of the SEA will need to be in force before the software and the equipment are procured. (paragraph 4.14).

**Exceptions to Bank policy:**

No exceptions to Bank policy are anticipated.

## **I. ELIGIBILITY OF THE COUNTRY AND THE PROGRAM**

- 1.1 The Donors Committee declared Nicaragua eligible for all types of financing from the Multilateral Investment Fund on 14 December 1993. The proposed operation is considered eligible for funding from the Technical Cooperation Facility (Window I) insofar as it provides for sustainable and radical reform to the system of procurement and adds transparency to the process by expanding opportunities for the private sector to have more equitable access to the government procurement market.

## **II. BACKGROUND**

### **A. Introduction**

- 2.1 During the 1980s, the status of institutions in Nicaragua was seriously eroded by a government in disarray brought about by the critical economic conditions ensuing from a country ravaged by civil war. In the early 1990s, Nicaragua undertook a series of major reforms that laid the foundations for a market economy driven by the private sector. These reforms have led to a closer relationship between agents in the public and private sectors in which government procurement plays an important role.

### **B. The legal framework**

- 2.2 The legal framework for government procurement is regulated by Law 290 (Organization, competence, and procedures of the executive branch) of June 1998, Law 323 (State Procurement Act) of 3 January 2000, amended pursuant to Law 349 of 9 June 2000.
  - a. Law 290 and its regulations confer powers on the Ministry of Finance through its Procurement Division to propose and formulate general standards and procedures for procurement and to ensure that they are correctly applied. Also, the law accords the Ministry the function of administering the central register of suppliers and contractors.
  - b. Law 323 and its regulations broaden the responsibilities of the Procurement Division to include the task of serving as a regulatory unit for all procurement in the public sector, including treatment of the environmental dimension. These responsibilities include providing technical assistance to different departments and agencies of the State for establishment and development of procurement units, preparation of organization manuals, internal control, functions and procedures, and training for personnel. The Division is also in charge of the central procurement information system, the register of suppliers, and the reference price system.

- c. Law 349 of 9 June 2000 amended certain articles of Law 323 to clarify the principles of equality and free competition, by eliminating certain restrictions and preferences contained in the original act that had been of concern to multilateral and bilateral financial institutions.

- 2.3 This legislation together with the June 2000 amendments provides a suitable legal framework for developing a procurement system because: (i) it establishes an organizational structure for the system, consisting of a central regulatory unit within the Ministry of Finance and procurement units in all public agencies and offices coming under the Procurement Act, that is in charge of planning, advisory assistance, and monitoring of administrative procurement procedures, in order to advise and support the bidding committee; (ii) it creates and establishes a register for procurement and supplier register, making it mandatory to provide data on procurement programs, sources of financing, and procurement; (iii) it gives the Regulatory Unit the authority to report to the controlling bodies of the State on any discrepancy noted for legal purposes.

#### **C. Present procurement system**

- 2.4 At present, the Nicaraguan State is the largest purchaser of goods, works, and services, with estimated procurement amounting to 15% of GDP. Government procurement is carried out through some 300 calls for tenders that attract approximately one thousand suppliers and contractors. An institutional study found that eight entities account for about 80% of public investment and therefore the lion's share of procurement by the State.<sup>1</sup> Also, it was found that the procurement system suffers from a number of shortcomings having to do with access by suppliers to the government procurement market, high costs of present trade practices, weaknesses in purchasing institutions, and the use of obsolete procurement technology. These problems combine to hinder free competition in the suppliers' market, making it impossible for all suppliers to bid on all goods, services, and works demanded by the State. Moreover, these constraints prevent the State from having access to new sources of supply at reasonable prices.
- 2.5 At the present time, trade practices are such that suppliers do not have adequate information on opportunities for doing business with the State. Potential suppliers do not always have the necessary information, and when they do, it is often too late for them to prepare proposals. These practices mean that suppliers need to be more closely involved with the institutions in order to keep abreast of the available opportunities, which is extremely costly. Those most severely affected are small

---

<sup>1</sup> These entities are the Ministry of Health, the Ministry of Education, Culture, and Sports, the Nicaraguan Institute for Municipal Development, the Social Emergency Investment Fund, the Rural Development Institute, the Nicaraguan Water and Sewer Authority, the Ministry of Transport and Infrastructure, and the Ministry of Finance.

and medium-sized producers, who are left out of the State procurement process and the insufficient information gives the perception of a process that is not transparent.

- 2.6 For the State, this practice is also burdensome since it must prepare long lists of suppliers for each call for tenders, bidding documents are extremely lengthy and need to be sent to many prospective bidders because by law a minimum number of suppliers must be notified. In addition, there are the costs of advertising and distribution of a large number and extremely varied number of documents. The lack of competition means that the State is unable to obtain the most favorable prices since it does not receive the best proposals and those that it does receive do not necessarily quote a fair price.
- 2.7 In addition, the entities that conduct the procurement process are further hampered by the fact that they do not have qualified staff or systematic training programs. Government enterprises have only just begun to plan their procurement activities, the procedures used are inefficient thus adversely affecting the entire national system and the private sector in particular, with the distortions resulting from an inefficient public procurement process.
- 2.8 As to the use of procurement technology, only a preliminary database is now in place in the Procurement Division. This database is incomplete because not all government offices and agencies are included. It is not updated regularly and cannot be accessed by the public. Also, the database is not linked up to other systems in the Procurement Division itself, to other institutions, or to other integrated systems such as the integrated financial management and administrative system (SIGFA).
- 2.9 Against this background, the Nicaraguan government has been spurring reform in the area of procurement that entails the regulation of government procurement, promoting its efficiency and transparency. Some of these reforms have been supported by an IDB loan (1064/SF-NI) approved in September 2000, to address the requirements arising from the reconstruction and support for implementation of the new legal framework established under the Government Procurement Act (Law 323 as amended by Law 349). Specifically, as part of the program financed with this loan: (i) an audit inspection will be performed of government procurement, (ii) the management capacity of procurement in the public sector will be enhanced, (iii) the functions of the Ministry of Finance's Procurement Division will be strengthened, and (iv) a training structure will be created for the areas of the public sector concerned. The conditions precedent to the first disbursement of this loan are being fulfilled.
- 2.10 The present operation seeks to set up a sustainable national procurement system in Nicaragua. The cornerstone of this system would be an electronic procurement information system which, amongst other things, offers suppliers an equal opportunity for taking part in supplying the goods, services, and works demanded

by the State. At the same time, the State will have a more ample source of supply offering products at more favorable prices from which to make its purchases.

### III. OBJECTIVES OF THE PROGRAM

- 3.1 **Objective:** The objective of the operation is to make the State procurement process more efficient, more competitive, and more transparent, with greater participation by the private sector.
- 3.2 The purpose of the proposed operation is to develop and implement a sustainable national procurement system that fosters competition and participation by the private sector. The operation will maximize the efficiency of procurement management, by streamlining procurement procedures in terms of speed, efficiency, competition, savings, transparency, and quality.

### IV. DESCRIPTION OF THE PROGRAM

- 4.1 To attain objectives, the present operation is divided into four components as follows: (i) design and implementation of an electronic procurement information system (SEA), (ii) updating of standards, (iii) improvements in internal control of the procurement process, and (iv) training for the private sector.
- 4.2 The new system must be consistent with the Nicaragua's needs and the country's present level of technological development. Also, a vision is needed that integrates the new system with the accounting and budgetary systems now in place in the different purchasing units and with national financial administration systems.
- A. **Component 1: Design and implementation of an electronic procurement information system (MIF: US\$711,000; Local: US\$250,000)**
- 4.3 **Objective:** to streamline, modernize, and give transparency to the procurement process, using new information technologies.
- 4.4 **Description:** This component seeks to transform the traditional way in which the government carries out procurement management, by using the technology now available to improve the process. Based on experiences in countries that have introduced it<sup>2</sup>, the new information technologies applied to the procurement process are a more efficient and equitable alternative for the business sector since it lowers costs, promotes competition, transparency, and innovation, and increases user confidence. As to its feasibility, the use of the Internet is fairly widespread because its cost makes it accessible to small and medium-sized companies in particular.

---

<sup>2</sup> Electronic government procurement information systems in Chile, Canada, Compranet of Mexico, and Australia.

- 4.5 The general provisions of the Procurement Act in force, and specifically Article 18(c), whereby the Standards Unit is authorized to design and implement computerized registration systems will serve as a basis for developing the electronic procurement system in Nicaragua.
- 4.6 Introducing an electronic procurement system is a gradual process and in Nicaragua in particular this operation represents a vital part of this process. Experience in other countries also shows that for a time it should exist side by side with traditional procurement methods. Consequently, this component targets the eight entities mentioned in paragraph 2.4.
- 4.7 The SEA consists of automating each stage in the procurement process through a computer and data network link with the Procurement Units and suppliers of goods and services. The purchasing institutions will issue, through the SEA, calls for tenders and quotes on their purchases of goods and services and public works, including the conditions and terms of reference associated with these calls for tenders. The results of the procurement process will be recorded in the system, together with the name of the winning bidder, the amount, and the decision and any relevant information pertaining to the contracts such as clarifications, notice of change in calls for tenders, and bidding conditions, etc. In addition, the SEA will make it easier to identify potential registered suppliers, government institutions involved, and their procurement programs. The use of electronic media for procurement makes it possible to disseminate and make available information on each stage of the procurement process. In particular, for purposes of transparency, the SEA will provide a list of reports on all advertised procurement for which contracts have been awarded through the system at any given time by institution or for the system as a whole.
- 4.8 **Activities.** The present operation provides for the selection and hiring by international competitive bidding of "turn key" consulting services to design and implement the SEA, including the selection, provision, upgrading, and installation of equipment and programs for implementation of the system in participating government entities as well as training in their use for staff. The bidding conditions for turnkey consulting services will include a condition stipulating that procurement of the equipment and software will be tied to the implementation by the government of regulations governing the introduction of the SEA. The terms of reference of this consultancy will be taken from studies that are being commissioned by SETEC to identify the most suitable electronic procurement system for Nicaragua, based on experience in other countries including an analysis of whether such a system is legally feasible, the alternative of charging a fee to ensure the sustainability of the system, and the treatment of the environmental dimension. The proposed system must be acceptable to the government and the Bank.

- 4.9 Also, the plan is to hire individual consultants with considerable experience in information technology and procurement to assist the Executing Unit in monitoring and coordinating the different activities covered by the present operation, including to review and approve the terms of reference for the various consulting services and procurement planned for the operation, convene, hire, and supervise the work of the consultants, specifically those for the SEA; coordinate the progress and final reports of the different consultants as well as execution of their work, and to receive and accept the goods procured.
- 4.10 **Results.** The SEA will permit greater disclosure of government procurement programs by sector, type of good, works, or service, and estimated amounts and will make it easier to access bidding conditions on line. Using electronic media for procurement will permit immediate access to information on the selection process and its results as well as electronic classification of goods and services, reference prices, contractors, and consultants. It will also speed up the process by streamlining procedures and shortening the deadlines of the procurement process and permit electronic consultation on standards in force.

**B. Component 2: Updating of Standards (MIF US\$90,000)**

- 4.11 **Objective:** The purpose of this component is to establish basic regulations governing the operation of the new system resulting from the introduction of electronic procurement media and supplementary procurement conditions<sup>3</sup> covered by law.
- 4.12 **Description:** These regulations will include specific provisions for use and management of electronic registers of suppliers, contractors, and consultants, contract and procurement information databases, price management database for goods, services, and works, contract supervision, procedures for security, privacy, and confidentiality of electronic commercial transactions. Relevant environmental provisions will also need to be considered. The necessary procedures manuals will also need to be prepared for operation of the system.
- 4.13 **Activities.** The proceeds of the operation will be used to hire a consulting firm to conduct a study of existing standards (to be introduced in parallel with the design of the SEA), to prepare procedures manuals for operation of the system, and to prepare a proposed set of regulations on the points mentioned in the preceding paragraph. The proposal will be submitted to the government and the Bank for consideration. As a condition precedent to procurement of the software and equipment, the government must implement the regulations for the system. The consulting firm will also prepare an institutional proposal for regulation and operation of the

---

<sup>3</sup> Article 26 of the Procurement Act states that the purchasing entity may introduce additional conditions such as evaluation mechanisms in two or more stages, price negotiations, auctions to the lowest bidder, contractor financing or any other modality.



system. The draft terms of reference for this consultancy are attached to the present document.

- 4.14 **Results.** This component is expected to provide safe and clearly defined rules for operation of the SEA. Also, a proposal outlining possible institutional scenarios to ensure that the system is efficient and transparent will be obtained.

**C. Component 3: Improvements in Internal Control of the Procurement Process (MIF US\$90,000)**

- 4.15 **Objective:** To improve mechanisms of internal control, supervision, and accountability for procurement management, using electronic information media.

- 4.16 **Description:** Internal control of the procurement process consists of a series of mechanisms adopted by entities in the public sector to ensure that the procurement process is efficient and transparent, including the establishment of responsibilities. Internal control guarantees the accuracy and reliability of the technical, administrative, and financial data and encourages compliance with established policies in order to achieve the programmed objectives and targets.

- 4.17 **Activities.** The operation will provide funding for a consultancy to prepare a proposal for establishing and developing control mechanisms in connection with the introduction of an electronic procurement system. These mechanisms must be based on the analyses of the organization and functioning of supervision practices in place and on the lessons learned from the activities to strengthen procurement management and control capacity. The methods and procedures proposed will be submitted to the government and the Bank for consideration, and once they have been approved will be put in place and integrated with the standards and manuals for the procurement units in each entity. The consultancy will also be required to evaluate the functioning of the control mechanisms in use and provide training to the personnel involved. A draft of the terms of reference for the consultancy is attached to the present document.

- 4.18 **Results.** This component will provide an effective tool for making the procurement process transparent and for giving civil society a mechanism for control of government contracts.

**D. Component 4: Training for the private sector (Local US\$98,000)**

- 4.19 **Objective:** To create better business opportunities in the private sector, through promotion and dissemination of the system and training.

- 4.20 **Description:** The Procurement Division is developing a permanent training structure with a view to offering ongoing instruction in procurement management to the government officials involved. In addition, the Division has been providing training events for government suppliers listed on the Register of Suppliers through

personalized attention and training modules relating to the Act. Under the present operation, training will be extended to the entire private sector, which will also receive instruction in the use and management of the new system through campaigns to disseminate and promote it, including treatment of the environmental dimension.

- 4.21 Contacts with the Institute for Small Business and Microenterprise (INPYME) and the Superior Council for Private Enterprise (COSEP) show that expectations for the present operation are very high. In fact, their management offered to make their facilities available to disseminate the accomplishments of the operation amongst their members, to create an information center for members interested in taking part in public bidding and expressed a willingness to make other facilities that would be agreed on once the operation was under way.
- 4.22 **Activities.** The present operation provides for the hiring of a specialized consulting firm to design and develop campaigns to disseminate and promote the new procurement system. This activity will be aimed at any target groups in the private sector. The firm will also be required to organize training workshops and exchanges between the present suppliers, potential suppliers, staff in purchasing entities, and the Procurement Division, and to evaluate the success of the campaigns for learning the views of the private sector on the use of the new system.
- 4.23 This activity will receive the support of business associations and small and medium-sized producers that give their members facilities such as spaces for workshops, events and training, dissemination materials, information and liaison offices, and access to the Internet to who so wish.
- 4.24 **Results.** This component is expected to provide a broad supplier base with an understanding in the use and management of the new system.

#### **E. Environmental and social considerations**

- 4.25 During the analysis of the operation, the project team considered the potentially adverse environmental and social effects that the operation could have and found that most of the measures adopted to mitigate these effects are considered in the regulations and the existing legislation referred to in paragraph 2.2. The consultants' terms of reference for the design of the system and implementation of the training provide for possible steps to mitigate these effects and the dissemination of this information to the personnel involved. It is therefore safe to say that the measures contained in current legislation and the procedures adopted for each component ensure that the operation is environmentally and socially feasible.

## V. COST AND FINANCING

- 5.1 The estimated cost of the program is the equivalent of US\$1.5 million, of which US\$1,050,000 will be contributed by the MIF on a nonreimbursable basis and the equivalent of US\$450,000 will be in the form of local counterpart funding as indicated in the table below:

**Summary of costs  
(in US\$)**

ITEM	LOCAL COUNTERPART	MIF	TOTAL
<b>1. Information system</b>	<b>250,000</b>	<b>711,000</b>	<b>961,000</b>
1.1 Consulting services	45,000	521,000	566,000
1.2 Equipment	205,000	190,000	395,000
<b>2. Updating of standards</b>		<b>90,000</b>	<b>90,000</b>
2.1 Consulting services		90,000	90,000
<b>3. Quality control</b>		<b>90,000</b>	<b>90,000</b>
3.1 Consulting services		90,000	90,000
<b>4. Dissemination and training</b>	<b>98,000</b>		<b>98,000</b>
4.1 Consulting services	88,000		88,000
4.2 Materials	10,000		10,000
<b>5. Executing unit</b>	<b>98,000</b>	<b>60,000</b>	<b>158,000</b>
5.1 Consulting services		60,000	60,000
5.2 Overhead expenses	98,000		98,000
<b>Evaluation</b>		<b>40,000</b>	<b>40,000</b>
<b>Audits</b>		<b>20,000</b>	<b>20,000</b>
<b>Contingencies</b>	<b>4,000</b>	<b>39,000</b>	<b>43,000</b>
<b>TOTAL</b>	<b>450,000</b>	<b>1,050,000</b>	<b>1,500,000</b>
Percent	30%	70%	100%

## VI. EXECUTION

### A. Organization and execution

- 6.1 The executing agency will be the Technical Secretariat of the Office of the President (SETEC), which will work closely at all times with the Ministry of Finance's Procurement Division in implementing all activities planned for this operation in which the latter is involved.
- 6.2 The choice of SETEC as the executing agency was approved by the government because it is carrying out a structural reform of government procurement under a

program for efficiency and transparency in government procurement. As part of the operation, an executing unit was set up pursuant to Decree 96-2000 of 19 September 2000. The present operation will benefit from this structure now in place in implementing the two operations and coordinating efforts between them.

- 6.3 The executing unit has the authority to carry out the activities planned for the present operation and the capacity and competence to discharge the following duties: (i) to issue calls for tenders and award contracts, supervise, coordinate, receive, and accept the procurement of goods and services on behalf of the State, (ii) to administer the technical-cooperation funding, opening such bank accounts as are necessary to do so, keeping the corresponding records and preparing such reports as are necessary; (iii) to coordinate the activities of the consultants, (iv) to prepare regular progress reports, (v) to process disbursement requests with the Bank, and (vi) to secure during project execution close coordination with the Ministry of Finance's Procurement Division, in all areas pertaining to the present operation.
- 6.4 In addition, the functions of the Procurement Division will include the following specific duties: (i) to support the EU with the functions of issuing calls for tenders and awarding contracts, supervising, coordinating, receiving, and accepting the procurement of goods and services on behalf of the State; (ii) to prepare, review, and approve the consultants' terms of reference and the procurement of goods to be financed under the operation, (iii) to help coordinate the activities of the different consultants in their respective areas, (iv) to approve the progress and final reports of the different consultants in their areas of involvement, (v) to assist the EU with the consultants' activities, (vi) to develop and implement programs for disclosure, education and training for the private sector, and (vii) to help the EU carry out all other aspects of the present operation that involve the Procurement Division.
- 6.5 The EU is functioning with a basic complement of staff that includes a local coordinator, who in turn will be assisted by specialists in procurement, training, and administration and finance, as well as support staff. The unit will also have two specialists who will work exclusively with the present operation, one in procurement and the other in information systems, whose terms of reference will be submitted shortly to the Bank for consideration. These specialists must be selected as a condition precedent to the first disbursement. Also, depending on the needs at any given time, short-term consultants may be hired to carry out specific activities. Before these consultants are hired, the EU must submit their terms of reference to the Bank for consideration.

**B. Administrative and financial execution**

- 6.6 The administrative and financial management of the program will be the responsibility of the Executing Unit. These tasks include the administration of the bidding process, contracts and professional remuneration, goods and services for

the projects, accounting of operating income and expenses; and the periodic updating and preparation of financial statements and any other reports that may be needed.

**C. Procurement of goods and services**

- 6.7 All procurement of goods and consulting services under the present operation will be carried out in accordance with the Bank's standard procedures. International competitive bidding will be required for procurement of consulting services for the "Design and implementation of an electronic procurement system" component valued at more than the equivalent of US\$200,000.

**D. Disbursements and revolving fund**

- 6.8 A revolving fund in an amount of up to 10% of the financing will be established. Disbursements made on a revolving basis must be administered separately by the EU in a special bank account on behalf of the operation. Within 60 days after the close of each calendar six-month period, the executing agency must submit semiannual reports on the status of these funds.

**E. Execution and disbursements**

- 6.9 The execution period will be three years and the disbursement period will be three years and six months, effective in each case from signature of the letter of agreement for the operation.

**F. Accounting and audits**

- 6.10 The SETEC will be responsible for (a) establishing and keeping proper account accounting, financial, and internal records and filing systems that make it possible to determine the source and application of technical-cooperation funding. The records for the operation will (i) identify resources and their sources, (ii) provide information on expenses, distinguishing the MIF contributions from funds from other sources, (iii) itemize revenue received, and (iv) give the necessary details for determining goods procured and services hired; (b) opening separate bank accounts to administer the MIF contribution and the local counterpart funding; (c) processing disbursement requests and the corresponding justifications of expenses, in accordance with the Bank's disbursement procedures; and (d) preparing and submitting to the Bank the final project financial statements audited by an independent firm acceptable to the Bank and the reports on the revolving fund.

**G. Ex post evaluations**

- 6.11 As this is an innovative operation, provision has been made for independent consultants to be hired by the Bank to perform final and midterm evaluations of its impact, describing performance indicators, objectives, targets, benefits, and risks.

The final evaluation must be conducted when at least 90% of the proceeds of the donation have been disbursed. The methodology for gathering data and the basic parameters for preparing the final evaluation will be established at the outset. These evaluations will be financed out of the grant funding.

#### **H. Monitoring**

- 6.12 SETEC will be responsible for the activities for each component and for preparing the necessary reports. Every six months, a progress report must be prepared describing the activities completed during the period just ended. The format for presenting the reports will be agreed on with the Country Office in Nicaragua. The reports will indicate the extent to which the performance indicators shown in the logical framework have been fulfilled. Also, a disbursement schedule will be prepared for the following period. The progress report will be submitted to the Bank's Country Office for approval within 30 days after the close of the respective six-month period.

### **VII. SUSTAINABILITY, BENEFITS, AND RISKS**

#### **A. Sustainability**

- 7.1 The Procurement Act establishes a suitable legal framework for the sustainability of this operation insofar as it defines the organizational structure of the national procurement system, including the establishment of the Ministry of Finance's Procurement Division as the regulatory unit for the entire system, and the beneficiary of this operation.
- 7.2 In the context of the reforms being pursued in the area of government procurement, the authorities are committed to enacting timely measures to strengthen the Procurement Division in terms of staffing, budget, and such other means as may be necessary for the functioning of the system, once the present operation has been completed.

#### **B. Benefits**

- 7.3 The direct beneficiaries will be companies supplying works, goods, and services to the State, who will have a dependable, efficient, and secure procurement system that provides reliable, comprehensive, and understandable information for preparing better bids. A procurement setting that is transparent, efficient, and predictable increases access by the private sector, especially for small and medium-sized businesses (estimated at approximately 1,500 units in Nicaragua) to the government procurement market, thus opening up opportunities for doing business and serving as an incentive for the private sector to develop better products and services thereby attracting the higher levels of private investment that the country needs.

- 7.4 In addition, the private sector will be the main beneficiary of the training activities planned for this operation, a factor that will enable it to take on a more proactive and effective role in the procurement process.
- 7.5 Purchasers in the public sector stand to benefit from a more efficient procurement process owing to the streamlining of administrative procedures, standardization of documents on procedures, faster communications, and fewer errors in preparing bidding documents. The executive branch and the agencies responsible for the legal aspects will have the means to perform the task of supervising the use of public resources more efficiently since they will have systematic, efficient, and reliable information from procurement programming phase to final contract settlement.
- 7.6 Likewise, suppliers and the State stand to benefit from a more competitive market. Estimates show that increased competition amongst suppliers, better price comparisons, and lower transaction costs have the effect of reducing government procurement costs from about 10% to around 30%.<sup>4</sup>
- 7.7 The SEA covers the entire government procurement process and makes it available to the public, representing a transparent mechanism that prevents arbitrariness and, can be audited at any time, and a broad mechanism to provide accountability to the public.

### **C. Risks**

- 7.8 The introduction of a relatively innovative system technologically generally brings with it natural resistance to change from traditional suppliers, officials in purchasing agencies, politicians, and the general public. It is recommended that measures of the following kind be adopted to mitigate such risks: (i) that this type of initiative be handled by the State in the areas of transparency and probity, (ii) that smooth communications with business associations be encouraged from the outset in order to send them a signal of confidence, (iii) that the lessons learned in countries where such a system has been applied be studied, particularly those relating to the gradual introduction of an electronic procurement system within a reasonable period, and (iv) that the present operation specify that the other reforms being implemented in the area of procurement, including the new legal framework and the IDB loan (1064/SF-NI), be introduced in accordance with accomplishments and planned objectives.
- 7.9 Operations like the present one which include structural reforms entail the risk that sufficient qualified personnel who are committed to the proposed reforms may not be available. To alleviate this risk, it was agreed with the authorities that the

---

<sup>4</sup> The reduction in costs would result from more economical calls for tenders in respect of preparation, reproduction, and mailing, lower cost of preparing the bids, savings in contract performance guarantees, and lower financial costs resulting from smaller inventories.

executing agency be SETEC, working closely with the Ministry of Finance's Procurement Division. SETEC has the technical capacity and suitable professional staff to carry out the reforms and to support the Division with the necessary interagency coordination.



## DEVELOPMENT AND IMPLEMENTATION OF A NATIONAL PUBLIC PROCUREMENT SYSTEM

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
State procurement that is faster, more competitive, more transparent, more and of higher quality, with more by the private sector.	<ul style="list-style-type: none"> <li>- Government procurement by eight entities is being processed by the SEA in accordance with regulations for its use and management</li> <li>- Increase the number of suppliers in government bidding</li> </ul>	<ul style="list-style-type: none"> <li>- Register of suppliers</li> <li>- National accounts</li> </ul>	<ul style="list-style-type: none"> <li>- Government to accord priority to transparency</li> <li>- Government to ensure sustainability of</li> </ul>
Implement a national procurement system that is sustainable and promotes competition by the private sector. The operation of the system makes the process faster, more competitive, more transparent, more effective, with higher quality.	<ul style="list-style-type: none"> <li>- Shorter time for processing of procurement</li> <li>- Lower costs of goods, works, and services</li> <li>- Higher quality in government purchasing</li> <li>- More bids submitted by suppliers to government</li> <li>- Increased interest by private sector in State procurement, particularly by small and medium-sized suppliers</li> <li>- Better perception by the public of government actions</li> </ul>	<ul style="list-style-type: none"> <li>- Register of Standards Unit information</li> <li>- Reference prices</li> <li>- Register of Standards Unit information</li> <li>- Reports of the chambers</li> <li>- Surveys and publications</li> </ul>	<ul style="list-style-type: none"> <li>- Government to accord priority to transparency</li> <li>- Government to ensure sustainability of</li> </ul>
<p><b>Objectives of the project</b></p> <p>Development and implementation of an electronic procurement information system</p> <p>Strengthening of legislation</p> <p>Improvements in internal control of procurement</p> <p>Facilitating access to procurement for private sector</p>	<ul style="list-style-type: none"> <li>- SEA functioning at 3 procurement units with information starting in December 2002</li> <li>- Regulations and manuals distributed to 3 procurement units commencing in October 2002</li> <li>- Control mechanisms functioning at 3 units starting in December 2002</li> <li>- 8 courses offered to 6 associations in private sector in December 2003</li> </ul>	<ul style="list-style-type: none"> <li>- Standards unit database. Standards and participating entities</li> <li>- Consulting reports</li> <li>- Standards units reports</li> <li>- Consulting reports</li> <li>- Consulting reports</li> <li>- Procurement unit reports</li> <li>- Standards unit training center reports</li> </ul>	<ul style="list-style-type: none"> <li>- Entities and suppliers to accept technological change</li> <li>- Government to be bound by legislation</li> <li>- Associations to express interest in continuing to provide training to affiliates</li> </ul>

		<ul style="list-style-type: none"> <li>- Associations reports</li> <li>- Consulting reports</li> <li>- Executing unit progress reports and financial statements</li> </ul>	
<p><b>Activities:</b></p> <p>and implementation of the system</p> <p>. This will include (i) purchasing servers, e, software, and network; (ii) adjusting publishing the SEA selected in public (iii) training the personnel involved; and disseminating information on the use of the</p> <p>of two individual consultants to supervise stment and implementation of the SEA monitor the subsequent activities</p> <p>tion of a study on existing legislation in with the design of the SEA</p> <p>tion of proposals to regulate the ing of the system and an institutional l to regulate and operate the system</p> <p>tion of a proposal to define and develop mechanisms arising from the</p> <p>tion of the electronic procurement</p> <p>ion of the functioning of the control isms in place and training in the use of mechanisms for personnel concerned</p> <p>cation of target population</p> <p>and development of a proposed campaign</p> <p>minate and promote use of the new</p> <p>ation of SEA training workshops and</p> <p>ion of the success of the campaigns</p>	<p><b>Budget</b></p> <p><b>1. Information system 961,000</b></p> <p>Consulting services 566,000</p> <p>Equipment 395,000</p> <p><b>2. Updating of standards 90,000</b></p> <p>Consulting services 90,000</p> <p><b>3. Quality control 90,000</b></p> <p>Consulting services 90,000</p> <p><b>4. Training and dissemination 98,000</b></p> <p>Consulting services 88,000</p> <p>Materials 10,000</p> <p><b>5. Executing unit 158,000</b></p> <p>Consulting services 60,000</p> <p><b>6. Overhead 98,000</b></p> <p><b>7. Evaluation 40,000</b></p> <p><b>8. Audits 20,000</b></p> <p><b>9. Contingencies 43,000</b></p> <p><b>TOTAL 1,500,000</b></p>		

**PROPOSED RESOLUTION**

**NICARAGUA. NONREIMBURSABLE TECHNICAL COOPERATION FOR THE  
DEVELOPMENT AND IMPLEMENTATION OF THE NATIONAL PROCUREMENT  
SYSTEM**

The Donors Committee of the Multilateral Investment Fund

**RESOLVES:**

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the República de Nicaragua and to take such additional measures as may be pertinent for the execution of the donors' memorandum referred to in Document MIF/AT- with respect to a technical cooperation program to develop and implement the national procurement system.
2. That up to the amount of US\$1,050,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.