



Board of Executive Directors

Short Procedure

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To: The Executive Directors

From: The Secretary

Subject: Nicaragua. Reformulation proposal for loan 3484/BL-NI for the "Border Integration Program" and supplementary nonreimbursable financing. Modification of Resolutions DE-40/15 y DE-41/15

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Remarks: The attached proposal is submitted in accordance with document CS-3953-3 (paragraph 6) "List of matters to be considered by the Board via Short Procedure. Update".

The Executive Directors are requested to inform the Secretary, in writing, not later than **1 December 2017**, if they wish to interrupt this procedure. If no such communication is received by that date, the attached resolution will be considered approved by the Board of Executive Directors, and a record to that effect will be made in the minutes of a forthcoming meeting.

Reference: GN-1838-1(7/94), DR-398-17(1/15), CS-3953-3(6/17), PR-4286(6/15), DE-40/15, DE-41/15

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

NICARAGUA

**BORDER INTEGRATION PROGRAM REFORMULATION PROPOSAL
(NI-L1083) (3484/BL-NI)**

**SUPPLEMENTARY FINANCING (NI-G1020)
PROJECT SPECIFIC GRANT**

**PROPOSAL TO MODIFY RESOLUTIONS
DE-40/15 AND DE-41/15 AND LOAN CONTRACT 3484/BL-NI**

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This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

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REQUIRED
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2. Monitoring and Evaluation Plan
3. Environmental and Social Management Report
4. Procurement Plan
OPTIONAL
1. Fiduciary Institutional Capacity Analysis
2. Budget – NI-G1020
3. Study for New Installations in the National Border Crossing Inspection Centers at the San Pancho Crossing
4. Route Plan 1
5. Route Plan 2
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ABBREVIATIONS

AEO	Authorized economic operator
BIM	Border Integration Model
CBM	Coordinated Border Management
CGPP	Coordinación General de Programas y Proyectos [General Coordination Office for Programs and Projects]
EIRR	Economic internal rate of return
ESMP	Environmental and social management plan
EU	European Union
ICB	International competitive bidding
INTEC	Integración Económica Regional Centroamericana [Central American Regional Economic Integration]
IT	Information technology
MHCP	Ministry of Finance and Public Credit
NPV	Net present value
PDCC	Plataforma Digital de Comercio Centroamericana [Central American Digital Trade Platform]
POR	Program Operating Regulations
PSG	Project Specific Grant
QCBS	Quality- and cost-based selection
SIGFA	Sistema Integrado de Gestión Financiera Administrativa [Integrated Financial Management and Audit System]
SIGFAPRO	Sistema Integrado de Gestión Financiera Administrativa y de Auditoría para Proyectos [Integrated Financial Management and Audit System for Projects]
TIM	Sistema de Tránsito Internacional de Mercancías [International Goods Transit System]
TU	Transportation units
VUCEN	Ventanilla Única de Comercio Exterior de Nicaragua [Nicaraguan Single Window for Foreign Trade]

PROJECT SUMMARY
NICARAGUA
BORDER INTEGRATION PROGRAM REFORMULATION PROPOSAL
(NI-L1083, 3484/BL-NI)

SUPPLEMENTARY FINANCING (NI-G1020)
PROJECT SPECIFIC INVESTMENT GRANT

Financial Terms and Conditions			
Beneficiary:	Republic of Nicaragua		
Executing Agency:	Ministry of Finance (MHCP) through its General Coordination Office for Programs and Projects (CGPP)		
		Project Specific Grant (PSG)	Border Integration Program
Disbursement period:	4.5 years		5 years
Approval Currency:	euro		U.S. dollar
Source:	European Union		IDB
Amount:	Euros	20,000,000 ^(a)	
	U.S. dollars	23,580,000	55,000,000
Local counterpart (US\$):	Original		2,500,000
	Reformulated^(b)		3,379,000
Total reformulated			81,959,000
Project at a Glance			
<p>Proposal objective/description: This proposal to reformulate the Border Integration Program incorporates supplementary program financing provided by the European Union. The objective of the supplementary financing is foster economic development by boosting external trade competitiveness in Nicaragua. The specific objectives are to: (i) implement a physical and regulatory system of effective control processes and tools for the Nicaraguan border crossings that are the focus of the program, consistent with international best practices and regional parameters; and (ii) modernize the San Pancho crossing on the border with Costa Rica, endowing it with the infrastructure and equipment needed to effectively implement the processes and tools for controlling freight and people. The original objective of the Border Integration Program remains to boost Nicaragua's foreign trade competitiveness by modernizing infrastructure, equipment, and border systems at the three border crossings of Peñas Blancas, San Pancho, and El Guasale, in order to ensure efficient, effective coordination of controls by the responsible institutions.</p> <p>Special contractual clauses precedent to the first disbursement of supplementary financing: (i) the program Operating Regulations will have been updated and entered into effect in accordance with the terms previously agreed with the Bank; and (ii) specialists in accounting, procurement, and filing and information systems will have been hired to support the General Coordination Office for Programs and Projects (CGPP) in the Ministry of Finance and Public Credit (paragraph 5.5).</p> <p>Special execution conditions: The executing agency will fulfill the special socioenvironmental conditions set out in the Environmental and Social Management Report (ESMR) (required electronic link 3).</p>			
Exceptions to Bank policies: None			
Strategic Alignment			
Challenges: ^(c)	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>
Crosscutting themes: ^(d)	GD <input type="checkbox"/>	CC <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

^(a) Resources from the European Union's Development Cooperation Instrument will be administered by the Bank via a Project Specific Grant (PSG), taking into account the Operational Guidelines for the Processing, Approval, and Supervision of Project Specific Grants Financed with Resources from the European Commission (document GN-2605-4, hereinafter the "Operational Guidelines"). These resources are equivalent to US\$23,580,000, based on the reference exchange rate of US\$1.179/€1 as of 23 October 2017 (IMF: https://www.imf.org/external/np/fin/data/param_rms_mth.aspx). The equivalent amount in U.S. dollars may vary depending on the applicable exchange rate at the time of conversion.

^(b) As a result of the supplementary financing, the borrower increased the local counterpart from US\$2,500,000 to US\$3,379,000, primarily to cover the exchange rate differential and contingencies (see paragraph 3.17).

^(c) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(d) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. SUPPLEMENTARY EUROPEAN UNION FINANCING FOR THE BORDER INTEGRATION PROGRAM AND GOVERNMENT OF NICARAGUA REQUEST

- 1.1 On 24 October 2016, as part of its Annual Action Program for 2016, the European Union approved a contribution of €20,000,000 (the “EU contribution”) for Nicaragua to finance planned activities under the Border Integration Program (the “Program,” loan operation [3484/BL-NI](#)). This was approved by the Bank’s Board of Executive Directors on 17 June 2015. The EU contribution will be administered by the Bank via a Project Specific Grant (PSG), pursuant to the Framework Agreement signed by the EU and the Bank.¹
- 1.2 Through notification [MHCP-DM-E-0104-01-17](#) of 13 June 2017, the Nicaraguan government accepted the resources to be provided by the EU with a view to including these in the Program and, as a consequence, expanding the scope of specific activities therein. Accordingly, the Government of Nicaragua requested that the Bank process and approve the necessary modifications to Loan No. 3484/BL-NI, with a view to allocating the EU contribution specifically to financing the modernization of the San Pancho border crossing on Nicaragua’s border with Costa Rica. Subsequently, during the 26 September 2017 mission, the government requested that the Bank reallocate the loan resources originally earmarked for activities that will now be financed under the EU contribution, to cover additional expenses associated with the expansion of certain horizontal areas and buildings at the Peñas Blancas and El Guasaule border crossings, as well as an expansion of involuntary economic resettlement activities in Peñas Blancas.

II. BACKGROUND AND DESCRIPTION OF THE CURRENT STATUS OF LOAN 3484/BL-NI

- 2.1 Nicaragua has a small economy that depends on trade for its growth and development. Trade with neighboring countries is essential. Exports stood at US\$3.772 billion (at freight-on-board prices) in 2016, while imports amounted to US\$6.384 billion. Partner countries in Mesoamerica accounted for 25.3% of exports and 32.3% of imports, making this subregion Nicaragua’s most important trading partner after the United States. For this reason, a considerable share of Nicaragua’s trade is transported by land. Transportation infrastructure, customs processes, and infrastructure and equipment at border crossings are key factors determining the country’s competitiveness. Additionally, in the absence of a Caribbean port, 38% of exports are transported by land to ports in Honduras (18% to Puerto Cortés) and Costa Rica (20% to Puerto Limón) for shipment to international markets.

¹ On 3 June 2015, the Bank’s Board of Executive Directors approved the Proposal for the Amendment and Restatement of the Framework Agreement between the European Commission and the Inter-American Development Bank (document GN-2605-2). The new Framework Agreement (hereinafter, the “Framework Agreement”) was signed by the EU and the Bank on 10 June 2015. The Framework Agreement amends, supplements, and interprets the standard contractual conditions of the EU, known as the General Conditions for Pillar Assessed Grant of Delegation Agreement (PAGODA), in order to adapt them to specific characteristics of the Bank. The Framework Agreement determines the applicability of specific procurement rules (see paragraph 5.3) and others governing the eligibility of expenditures, budget modification, the presentation of reports, and the inclusion of a communications and visibility plan among other aspects. In accordance with the Framework Agreement, the Bank will act as an administrator of projects and the resources will be channeled from the EU to the beneficiary through the Bank.

- 2.2 Nicaragua operates several crossings, including El Guasaule, Las Manos, and El Espino on the border with Honduras, and Peñas Blancas on the border with Costa Rica. Approximately 600 transportation units, for example, use the latter border crossing in both directions every day. In addition, Nicaragua has substantially modernized the infrastructure that provides access to the community of San Pancho, on the border with Costa Rica.² The opening of a crossing at San Pancho would reduce the distance for exports now passing through Peñas Blancas en route to Puerto Limón by approximately 140 kilometers. This alternative will become available once the border crossing in Costa Rica is developed at Las Tablillas—a border town adjacent to San Pancho. The Bank will finance the development of this crossing under operation 3488/OC-CR (approved by Costa Rica’s Legislative Assembly in May 2017), together with the modernization of three more: Peñas Blancas, Paso Canoas, and Sabalito.
- 2.3 Despite Nicaragua’s positive trade performance in recent years, users of border services take a critical view of customs processes and the quality of border infrastructure.³ The country’s competitive position in regional trade will depend on how it handles the current constraints in the areas of infrastructure, the quality of logistics services, the efficiency of customs processes, and institutional coordination. The shortcomings in transportation infrastructure and management of border crossings increase transport costs by 4% to 9%.⁴ These shortcomings make their way into the rest of the logistics chain, leading to high costs for users, long border crossing times, and low quality of services.
- 2.4 The main factors impairing the quality of management at the three border crossings covered by this operation are: (i) inadequate infrastructure,⁵ which affects the efficiency of processes⁶ and leads to high levels of user dissatisfaction,⁷ informal economic activities,⁸ and a lack of security within the facilities;⁹ (ii) shortcomings in institutional capacity for the integrated management of border crossings, including a lack of master plans for development of the crossings; (iii) limited coordination

² Bank financing was used to modernize the Acoyapa-San Carlos-Argentina-Las Tablillas access road (145.9 km), while the Japan International Cooperation Agency supported construction of a bridge over the San Juan River to facilitate access to San Pancho.

³ Satisfaction surveys have yielded unfavorable results, with satisfaction rates of 43% at Peñas Blancas and 22% at El Guasaule for truck drivers, and 59% and 33%, respectively, for tourists.

⁴ *Competitive Advantage: Moving Ahead of the Global Competition*, IDB, 2013.

⁵ As a result of inadequate infrastructure at San Pancho, migratory control is carried out at San Carlos, and the infrastructure for sanitary controls is dilapidated. Equipment and furniture are obsolete and insufficient.

⁶ At world-class border posts such as Laredo in the United States, it takes 8 minutes to clear imports without inspection, between 1 and 2 hours with x-ray inspection, and between 2 and 4 hours with intrusive inspection. An export takes 20 seconds to clear. At Peñas Blancas, by comparison, the average time taken to clear imports without inspection is almost 7 hours, and with intrusive inspection it is 23 hours.

⁷ See Note 3 above.

⁸ The socioeconomic study for Peñas Blancas and El Guasaule highlighted the existence of informal workers whose activities are intimately associated with the border crossing: paperwork, money changing, porters, food sellers, etc.

⁹ Poor security means that drivers are reluctant to leave their vehicles to handle customs paperwork, instead hiring intermediaries, and this adds to transportation costs. Source: *Trucking Services in Belize, Central America, and the Dominican Republic: Performance Analysis and Policy Recommendations*. IDB, 2013.

among control agencies, which results in long processing times for users,¹⁰ an absence of integrated risk analysis systems¹¹ in which all supervisory agencies participate,¹² and little use of the in-transit regime, which means that needless import and export formalities have to be completed at border crossings;¹³ and (iv) the lack of a model for binational coordination of border processes, controls, and infrastructure.

- 2.5 **Border Integration Program (NI-L1083) (3484/BL-NI).** Loan 3484/BL-NI was approved by the Bank's Board of Executive Directors on 17 June 2015 in the amount of US\$55.000.000, with local counterpart of US\$2.500.000. The corresponding loan contract (3484/BL-NI) was signed by the Bank and the Republic of Nicaragua on 13 July 2015 and ratified by the National Assembly on 31 August of the same year. The executing agency is the Ministry of Finance and Public Credit (MHCP), through the General Coordination Office for Programs and Projects (CGPP). The operation was declared eligible in November 2015; 15% of funds have been disbursed to date, and execution is satisfactory.
- 2.6 The Program's overall objective is to boost Nicaragua's foreign trade competitiveness by modernizing infrastructure, equipment and border systems at the three border crossings of Peñas Blancas, San Pancho, and El Guasaule, in order to ensure efficient, effective coordination of controls by the responsible institutions. To achieve this objective, and based on the conceptual framework of coordinated border management (CBM),¹⁴ the Program is implementing a physical and regulatory system of processes and tools to support effective control, while also endowing the three border crossings with the infrastructure and equipment needed to effectively implement the processes and tools for the clearance of freight and people.
- 2.7 The status of program execution is as follows:
- a. **Component 1. Effective, efficient fiscal and parafiscal control processes.** The following actions have been implemented to date: (i) the bidding process is under way for functional expansion of the Nicaraguan Single Window for Foreign Trade (VUCEN 2.0); (ii) the contract for developing the integrated management system has been awarded; (iii) the bidding process is under way for the integrated management control system; and (iv) the contract has been awarded for the process of amending the regulatory framework.

¹⁰ On average, 44,000 refrigerated transportation units passed through Peñas Blancas each year in the 2012-2015 period, with an average wait time of 4.2 hours per unit.

¹¹ Tax evasion, health, police, immigration, and commercial risks.

¹² A number of inefficiencies were identified, such as duplicate procedures, an inability to make electronic payments, manual data input, repeated rejection of documents, inadmissibility of electronic signatures, and an inability to submit electronic documents in advance.

¹³ In Nicaragua, 70% of imports and exports clear customs at the border. With Bank support, the International Goods Transit System (TIM) has been instituted at the main border crossing points, but inadequate infrastructure neutralizes the benefits of the TIM. Strengthening that infrastructure and introducing advance online procedures would encourage more intensive use of the transit regime, and would do much to relieve traffic bottlenecks.

¹⁴ The Bank is also promoting, facilitating, and financing coordination meetings between Nicaragua and its neighbors (Honduras and Costa Rica), aimed at reaching cooperation protocols for the modernization of border crossings.

- b. **Component 2. Investments in infrastructure and equipment.** The following actions have been implemented to date: (i) the contract for the design and construction of the Peñas Blancas border crossing has been awarded; (ii) the bidding process is under way for the El Guasaule crossing; (iii) as part of the implementation of the Environmental and Social Management Plan (ESMP) for the border crossing, the contract to design the external commercial area in Peñas Blancas has been signed; and (iv) the contract for supervising construction of the Peñas Blancas crossing has been awarded.¹⁵
- 2.8 **The Bank's experience.** Central America is in the process of reforming its border crossings. In October 2015, the Council of Ministers of Integration, the Economy, and Trade (COMIECO) approved a trade and competitiveness facilitation strategy emphasizing Coordinated Border Management (CBM), and this constitutes the conceptual framework for interventions in their border crossings.¹⁶ The Bank is providing technical assistance and loan operations to support these efforts. For example, the Bank provided technical support for preparation of the facilitation strategy. The strategy is part of the initiatives included in the Mesoamerica Project—specifically, modernization of the Pacific Corridor Acceleration Program and the International Network of Mesoamerican Highways (RICAM)—and it incorporates the following parameters: (i) adoption of international border management standards; (ii) introduction of an interoperable advance information system based on the Single Window for Foreign Trade model and information sharing systems for combating fraud; (iii) risk management; (iv) certification of Authorized Economic Operators (AEOs); (v) quarantine controls under internationally recognized rules; (vi) harmonization of operating processes among border agencies, with particular reference to international goods transit, border management, and coordinated inspection systems; (vii) implementation and development of infrastructure and equipment that will meet control needs; and (viii) addressing the attendant socioeconomic and environmental effects. Lastly, the Bank is also financing the implementation of a series of fast-executing trade facilitation measures using regional technical cooperation funds in the amount of US\$1,450,000,¹⁷ as well as other national and regional initiatives involving the preparation and implementation of regional and national logistics plans. At the national level, the Bank is supporting Costa Rica,¹⁸ Nicaragua, and Panama¹⁹ with loans and technical cooperation resources²⁰ to modernize their border crossings.
- 2.9 **Lessons learned.** Based on the implementation to date of operation 3484/BL-NI, as well as other similar operations in Costa Rica, Guatemala, and Panama, the following lessons have been identified: (i) these types of projects require close monitoring and support to the executing agency, the development of action plans in

¹⁵ See [program progress and lessons learned](#).

¹⁶ See [CBM](#).

¹⁷ Technical-cooperation operation ATN/MR-14890-RG (*Apoyo a la Implementación de GCF en Mesoamérica* [Support for the Implementation of Coordinated Border Management in Mesoamerica]) finances the design of border modernization programs in Mesoamerica, as well as the implementation of rapid trade facilitation measures.

¹⁸ The operation attained partial eligibility in July 2017 and is expected to attain full eligibility in March 2018.

¹⁹ Operation PN-L1107, currently in the design phase.

²⁰ This set of initiatives is expected to bolster border crossing modernization and coordination in the region.

response to different execution challenges, and disclosure of the model and its implications (it is key that the Bank provide sufficient, timely technical and financial grant assistance); (ii) preliminary conceptual designs should be expanded to include construction blueprints so that budgets, fixed areas, variable areas, and their dimensions are established in greater detail. All of this needs to be validated and agreed in detail with the main actors to avoid subsequent increases in dimensions that would lead to costs in excess of those originally planned; (iii) negotiations with local authorities, communities, and self-employed workers through public consultations, as well as the agreement with the municipio, should be addressed at an early stage, and the Program should provide sufficient resources for communal border development; (iv) where land acquisitions are required, it is important to prioritize and provide support to the government, with a view to ensuring accurate preliminary designs; (v) given the interagency nature of the border crossings, it is important that the executing agency have the capacity and influence to organize the work, and that it be supported by a higher-level coordination body when making strategic decisions; and (vi) it is imperative that resources and time be dedicated to managing interagency change.

III. DESCRIPTION AND RATIONALE FOR THE PROPOSED CHANGE

- 3.1 The Program will receive additional resources under the supplementary program financing provided by the European Union, aimed at financing modernization of the San Pancho border crossing on the border with Costa Rica and extending the modernization of control processes and technology to facilitate the flow of freight and people through the border crossings that are the focus of this Program. This expansion of process modernization will benefit other border crossings targeted under future interventions—such as, for example, El Espino and Las Manos on the border with Honduras—as it will interconnect these crossings to the national border control system.
- 3.2 As a result of this supplementary financing, approved by the European Union for the aforementioned purposes, the Nicaraguan government has requested that the Bank modify the Program to include these investments and reallocate resources originally earmarked for activities that will now be financed by the EU (investments in the San Pancho border crossing), to finance an expansion in the scope of specific investments that are already planned. In the preparatory interagency discussions regarding the bidding processes for the Peñas Blancas and El Guasaule border crossings, the Program's Strategic Steering Committee (made up of the MHCP and the border control agencies) decided to expand the dimensions of the horizontal areas and buildings at the Peñas Blancas and El Guasaule crossings compared to those originally included in the Program's preliminary conceptual designs. The government also decided to substantially increase the scope of activities relating to involuntary economic resettlement at the Peñas Blancas border crossing, by financing the construction of a shopping center adjacent to the crossing. These

additional investments will require higher budgetary allocations than those originally envisaged under the Program.²¹

- 3.3 Given Nicaragua's geographic location, the critical condition of its border crossings inevitably propagates its high logistics costs to the rest of the subregion. The country is located in the center of Central America. Given that approximately 8% to 10% of annual subregional trade passes through Nicaragua, it is clear that comprehensive modernization of the border crossings is urgent both for the country and for Central America.
- 3.4 The Nicaraguan government's strategy calls for implementing an automated, integrated border management model with provisions for information interoperability, capable of handling rising demand.²² This also includes training for staff and the private sector so that facilitation and control functions are better coordinated.²³ The activities included in this supplementary financing are consistent with the government's strategy. In this context, the Border Integration Model (BIM) that the Bank has helped to design under the umbrella of the Mesoamerica Project and the strategy forms the basis for resolving the problems identified. The BIM is modeled on the World Customs Organization's SAFE Framework of Standards to secure and facilitate global trade,²⁴ and it is based specifically on measures to handle trade facilitation and border control in a coordinated manner among control agencies, with a view to reducing the time and cost of transit and ensuring efficient and effective control of persons and merchandise. The implementation of this model will help to fulfill Nicaragua's multilateral commitments in the context of the World Trade Organization's Trade Facilitation Agreement. The model involves integrating the processes and activities of control agencies, upgrading infrastructure and equipment, and serving the border community, based on integrated risk management.²⁵ This type of intervention would yield a number of benefits, including reduced costs and times for regional transportation, the modernization of fiscal and parafiscal controls, and other economic development benefits, including improved earnings from goods exports and the creation of new sources of income in communities close to the border crossings (allowing tourism activities to be established, for example).
- 3.5 Preparation of this PSG, together with the design of operation 3484/BL-NI, has benefited from other financial support provided by the Bank. Two technical-cooperation operations (ATN/MR-14890-RG and ATN/MR-13844-RG)

²¹ Component 1 increased from US\$4,750,000 in the original design to US\$12,431,564 after incorporating the PSG, while Component 2 increased from US\$46,000,000 to US\$58,777,236 and Component 3 from US\$4,250,000 to US\$10,750,200.

²² Modernization of the border crossings would enhance the efficiency of controls, thus facilitating trade.

²³ The country's private business sector—represented by the Private Sector Council (COSEP)—has played a proactive role in dialogue with the authorities to facilitate collaboration in the different program activities, such as VUCEN testing and training in the use of the new systems and administration and control processes.

²⁴ The Framework of Standards to Secure and Facilitate Global Trade (the SAFE Framework) was adopted in June 2005 at the annual session of the Council of the World Customs Organization. It sets standards for securing and facilitating trade, and 168 countries, including Nicaragua, have declared their intention to implement it.

²⁵ *Transforming global border management. Facilitating trade, travel and security to achieve high performance.* Accenture.

and other sources of corporate funding²⁶ were used to finance a substantial proportion of preinvestment activities, including the preliminary functional design studies for the San Pancho, Las Manos, and El Espino border crossings; preparation of the ESMP for these crossings; updating of the institutional capacity assessment for the executing agency; and preparation of the economic, social, and environmental feasibility analyses, among other things. The Bank is also preparing technical cooperation operation RG-T3003 (Strengthening of CBM) in order to continue supporting activities related to this PSG.

- 3.6 **Sector institutional framework.** The MHCP is responsible for approving budgets to ensure that State institutions can provide services in accordance with public policy priorities. The Customs Services Bureau is attached to the MHCP. The following institutions also exercise specific controls at border crossings: the Ministry of Development, Industry, and Trade; the National Police Department; the Agricultural Health and Protection Institute; the Immigration and Alien Registration Bureau; the Ministry of the Interior; the National Army; the National Commission for the Registration and Control of Toxic Substances; and the Ministry of Health.
- 3.7 **Alignment with regional initiatives.** Like the Program, this supplementary financing is aligned with the regional initiatives that the Central American countries have undertaken since 2014 with Bank support. At the request of the Heads of State and Government in the Declaration of Punta Cana (June 2014) and the Declaration of Placencia (December 2014), the Facilitation Strategy was developed and instructions were issued to move forward with the formation of the Central American Customs Union. Under this framework, the countries have identified short,²⁷ medium, and long-term²⁸ measures in the area of trade facilitation. This financing will also complement the European Union's Central American Regional Economic Integration Program (INTEC). INTEC will modernize the regulatory framework for regional trade, while also supporting system interoperability (the Central American Digital Trade Platform, PDCC) and strengthening the competitiveness of small and medium-sized companies in Central America. Specifically, execution of the PDCC component under INTEC will also be delegated to the Bank (technical-cooperation operation ATN/ER-16366-RG, approved by the Board on 28 September 2017), and this will facilitate synergy between the two actions.
- 3.8 **The executing agency's contribution** falls under priority sector 1 (support to the productive sector: agriculture and agroindustry) of the EU's Country Strategy Paper 2014-2020 for Nicaragua. The overall objective of the EU financing is to foster economic development by boosting external trade competitiveness in Nicaragua. Within this objective, the contribution seeks to boost economic returns in the agricultural and agroindustrial sectors specifically, with the aim of reducing poverty and supporting equality. This action is also consistent with the EU's Multiannual Indicative Regional Programme 2014-2020 for Central America, in that it offers an

²⁶ Transactional resources under operation 3484/BL-NI and Corporate Input Product BK-1176.

²⁷ Implementation of the short-term measures is supported by nonreimbursable Bank funding, and it includes measures such as the advance electronic submission of customs documentation, electronic sanitary certificates, the use of radiofrequency devices for the control of transportation units, migration facilities for freight truck drivers, and security camera systems.

²⁸ These measures include risk management, VUCE interconnection, deepening of the TIM, implementation of AEOs, achieving agreements on the mutual recognition of AEOs, and implementation of the PDCC.

opportunity to promote economic integration and facilitate regional trade flows in Central America. Lastly, this action will help to leverage the road infrastructure and connectivity investments that have recently been implemented in the San Pancho area.

- 3.9 **Strategic alignment.** This proposal is consistent with the IDB Country Strategy with Nicaragua 2012-2017 (document GN-2683) and will contribute to the strategic objective of strengthening transportation infrastructure in order to ensure that the productive sectors have access to domestic and export markets at all times, with emphasis on Mesoamerica. It is also aligned with the Update to the Institutional Strategy 2010-2020 (document AB-3008), in that it supports regional productive infrastructure, the incorporation of companies into regional value chains, alignment between integration policies and instruments, and South-South cooperation. Similarly, it is consistent with development challenges of: (i) economic integration, as improvements in the region's logistics network will help to enhance regional infrastructure and international connectivity; and (ii) productivity and innovation, by introducing improvements in the logistics network of the region. The Program is also aligned with the crosscutting theme of institutional capacity and rule of law, as it will strengthen the capacity of eight institutions working at the border crossings, through training plans relating to the new systems and regulations under the CBM model. Additionally, the proposal is consistent with the Sector Strategy to Support Competitive Global and Regional Integration (document GN-2565-4); the Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (document GN-2710-5); the Transportation Sector Framework Document (document GN-2740-3), as it supports the dimension of transportation and services infrastructure; and the Integration and Trade Sector Framework Document (document GN-2715-6), as it prioritizes support for the development of integration corridors. Lastly, the proposal is aligned with the following indicators under the Corporate Results Framework 2016-2019 (document GN-2727-6): public agencies' processing times of international trade of goods and services; professionals from public and private sectors trained or assisted in economic integration; and regional integration agreements and cooperation initiatives supported.

A. Objectives, components, and costs

- 3.10 The objective of the supplementary financing is to foster economic development by boosting external trade competitiveness in Nicaragua. The specific objectives of the supplementary financing are as follows: (i) implement a physical and regulatory system of effective control processes and tools for the Nicaraguan border crossings that are the focus of the Program, consistent with international best practices and regional parameters; and (ii) modernize the San Pancho border crossing on the border with Costa Rica, endowing it with the infrastructure and equipment needed to effectively implement the processes and tools for controlling freight and people. These objectives will be met by modernizing the border crossings, supporting implementation of the Border Integration Program. The original objective of the Program remains to boost Nicaragua's foreign trade competitiveness by modernizing the infrastructure, equipment, and border systems at the three border crossings of Peñas Blancas, San Pancho, and El Guasaule, with a view to ensuring efficient, effective coordination of controls by the responsible institutions. The supplementary resources will be used according to the existing program components, and will finance the following specific investments:

- 3.11 **Component 1. Effective, efficient fiscal and parafiscal control processes (€7,000,000 of the PSG, bringing the total to US\$12.43 million).** This component is designed to improve Nicaragua's fiscal, parafiscal, and border security controls. The additional resources under the EU contribution will finance training for the public and private sectors in the interagency regulatory framework for controls based on SAFE standards, and in modernized border control processes; they will also include activities to simplify processes and expand the capacity and quality of equipment for: (i) the integrated risk management system for border control agencies at the crossings, to support the objectives of control, security, and facilitation; (ii) the technology platform for the second phase of VUCEN 2.0; (iii) the system of integrated controls for freight and passengers at the border crossings; (iv) technological equipment for the central border control systems, and connection of the border crossings to these central control systems; and (v) the basic program of "trusted operators." These additional investments complement those envisaged under the Program, and constitute a "soft" CBM component based on process simplification and the procurement of information systems and technological equipment for the expeditious processing of information on fiscal and parafiscal controls at the border. Based on these new investments, Component 1 of the reformulated program will continue to finance the following activities: development of central IT platforms for the integrated risk management system; the integrated management control system; the basic program of "trusted operators"; the VUCEN system; and furnishing of the physical space for the VUCEN. The EU contribution will finance: (a) the training activities indicated above; (b) process simplification; and (c) equipment for the interoperability of those platforms at the three border crossings, adding greater capacity and coverage to the equipment originally planned under the Program.
- 3.12 **Component 2. Investments in infrastructure and equipment for the San Pancho border crossing (€10,500,000 of the PSG, bringing the total to US\$58.78 million).** This component finances the construction and equipment of the necessary facilities at the three border crossings, in accordance with CBM guidelines. The supplementary resources from the EU contribution will finance the construction and equipment of the border facilities at the San Pancho crossing, including: (i) the proposed physical and functional configuration of each border crossing, and the engineering designs; (ii) ground preparation and/or improvement and infrastructure refurbishing, including any demolition required; (iii) construction of buildings, roads, parking lots, and inspection areas; (iv) equipment for basic services (including water, power, telecommunications, etc.); (v) installation of nonintrusive inspection devices and management stations;²⁹ (vi) technical and environmental supervision of works; and (vii) socioenvironmental management of the border crossing intervention, including mitigation plans, compensation for resettlement, and reintegration programs for informal workers. These activities constitute the "hard" dimension of the CBM. The absence of adequate physical infrastructure and equipment in San Pancho has a critical impact on the efficient and effective functioning of that border crossing. The inclusion of both "hard" and "soft" elements creates the basis for a substantial improvement in border services. The Bank will continue to finance these investments in construction and equipment, but for the

²⁹ Units that capture vehicle information and send it in advance to the management control systems.

Peñas Blancas and El Guasaule border crossings. With the inclusion of the supplementary funds in this component, the resources previously earmarked for the San Pancho crossing will be reallocated to expand the scope of works planned for the Peñas Blancas and El Guasaule crossings. Financing was originally planned for the construction of freight and passenger terminals measuring 8,300 square meters in Peñas Blancas and 5,800 square meters in El Guasaule. With the modifications, however, the works are expected to be expanded to 11,850 square meters in Peñas Blancas and 7,200 square meters in El Guasaule (an increase in their scopes of roughly 43% and 25%, respectively). Additionally, as part of the environmental and social safeguards under the Program—specifically, the involuntary economic resettlement activities at the Peñas Blancas border crossing—the intention was to relocate self-employed workers to stores outside the primary area. Although the Program included adequate resources for these activities, the Nicaraguan government requested that the Bank increase them to provide an even more robust economic resettlement than the original proposal. With the reallocation of the additional resources, the construction of a sizable shopping center (tiangué) will be financed, benefiting more than 750 area merchants.

- 3.13 **Management and administration of the EU contribution (€1,800,000 of the PSG, bringing the total to US\$10.75 million).** The EU contribution will finance: (i) direct management costs (including hiring of a systems specialist, an accountant, a filing and information systems specialist, and a procurement specialist); (ii) implementation of the communication plan for the EU contribution; and (iii) the fund administration fee. These management and administration costs are additional to those included in the Program to cover the additional management and administration costs associated with the additional operation, as well as financial costs and contingencies.
- 3.14 **Costs.** The supplementary funds from the EU contribution will amount to €20,000,000 (equivalent to US\$23,580,000). Financial administration of the supplementary resources will be managed by the CGPP in the MHCP, which remains the executing agency. The CGPP has institutional capacity and prior experience in managing Bank projects and projects with EU funding.³⁰ The Integrated Management, Administrative, Financial, and Audit System (SIGFAPRO) will be used as a country system for maintaining accounting and financial records.
- 3.15 Table I.1 lays out the indicative budget for the supplementary financing with resources from the EU contribution, with its equivalent in U.S. dollars at the reference exchange rate of US\$1.179/1€ (see footnote 1).

³⁰ See paragraph 2.5 for the capacity strengthening requirements that will be requested of the executing agency.

Table I.1 Indicative budget*

Indicative budget	EU (NI-G1020)	
	€	US\$
Component 1. Effective, efficient fiscal and parafiscal control processes	7,700,000	9,078,300
Component 2. Investments in infrastructure and equipment for the San Pancho border crossing	10,500,00	12,379,500
Direct management costs	500,000	589,500
Communication	203,600	240,000
5.8% administration fee for executed eligible funds	1,096,400	1,292,700
Total	20,000,000	23,580,000

*For further information, see [optional electronic link 2](#).

3.16 Table I.2 shows the disbursement schedule for the EU contribution:

Table I.2 Disbursement schedule for the EU contribution (€)

Disbursements	1	2	3	4	Projected balance	Total
EU contribution	4,000,000	8,000,000	7,000,000	800,000	200,000	20,000,000
Percent	20%	40%	35%	4%	1%	100%

3.17 Table 1.3 shows the budget for the reformulated program (3484/BL-NI), including both the supplementary financing and additional local counterpart funds that Nicaragua has committed to providing (US\$879,000). The Program's local counterpart therefore increases to US\$3,379,000, of which US\$1,000,000 will be used to cover any contingencies that may arise during execution of the Program; up to US\$1,179,000 to cover the possible exchange rate differential; and up to US\$1,200,000 to help finance the shopping center at Peñas Blancas.

Table 1.3. Cost of the Border Integration Program (3484/BL-NI)

Output	3484/BL-NI		PSG (NI-G1020)	Local counterpart	Total reformulation
	Original	Modified			
Component I	4,750,000	3,353,000	9,078,000	-	12,432,000
1.1 Risk management system	2,185,000	1,420,000	4,000,000	-	5,420,000
1.2 VUCEN	1,500,000	1,500,000	650,000	-	2,150,000
1.3 Regulatory framework	150,000	150,000	-	-	150,000
1.4 Central management system	685,000	200,000	4,147,000	-	4,347,000
1.5 Staff training	230,000	83,000	282,000	-	365,000

Output	3484/BL-NI		PSG (NI-G1020)	Local counterpart	Total reformulation
	Original	Modified			
Component II	46,000,000	45,198,000	12,379,000	1,200,000	58,777,000
2.1 Peñas Blancas border crossing modernized	19,778,000	24,669,000	-	1,200,000	25,869,000
2.2 Peñas Blancas border crossing equipped	2,062,000	2,062,000	-	-	2,062,000
2.3 San Pancho border crossing modernized	10,613,000	-	10,374,000	-	10,375,000
2.4 San Pancho border crossing equipped	2,285,000	-	2,005,000	-	2,005,000
2.5 El Guasaule border crossing modernized	9,296,000	16,111,000	-	-	16,111,000
2.6 El Guasaule border crossing equipped	1,616,000	2,005,000	-	-	2,005,000
2.7 ESMP executed	350,000	350,000	-	-	350,000
Component III	4,250,000	6,449,000	2,122,000	2,179,000	10,750,000
Management and Administration	1,750,000	1,750,000	589,000	-	2,339,000
Communication			240,000	-	240,000
5.8% administration fee			1,292,000	-	1,293,000
Financial expenses	1,500,000	1,500,000	-	-	1,500,000
Exchange rate differential	-	-	-	1,179,000	1,179,000
Contingencies	1,000,000	3,199,000	-	1,000,000	4,199,000
Total	55,000,000	55,000,000	23,580,000	3,379,000	81,959,000

3.18 **EU contribution beneficiaries.** The beneficiaries will be freight transport users (who will have another alternative for connecting to the Atlantic port of Costa Rica), new lines of tourism, and migrants crossing on foot, due to greater reliability and predictability of waiting times and costs for services, inspections, and controls at the border crossings. In addition, the scope of activities is being expanded to create capacities among users, improve technological infrastructure, and address technology gaps in the entities participating in VUCEN. The beneficiaries of the Program as a whole will be the passengers and truck drivers that use the border crossings, as well as the staff of the institutions located at the crossings, who will be able to perform controls effectively and efficiently.

B. Key results indicators

3.19 The results framework determines the indicators and the means of verifying fulfillment of the operation's objectives. Implementation of the EU contribution will lead to the following improvements in border control processes: (i) ensure greater efficiency and effectiveness in fiscal and parafiscal border control processes; and (ii) develop physical infrastructure and provide adequate technological equipment at the San Pancho crossing. One of the main indicators is the development of a border

crossing at San Pancho with a maximum freight processing capacity of 229 imported transportation units and 107 exported transportation units per day; this will ensure swift processing times of around 1.6 hours for imports and 1.31 hours for exports. Other program results include: (i) annual customs operations submitted electronically in advance to the VUCEN platform will increase from 10% to 50%; and (ii) customs permits processed through this platform will increase from 26% to 80%. Aggregate indicators for the reformulated Program are included in the Program's results framework (see [optional electronic link 16](#)).

- 3.20 **Technical and economic evaluation.** The economic evaluation of the supplementary resources for the Program was conducted in respect of Component 2 investments, in the form of a benefit/cost analysis that compared total economic costs (for users and for the State) over a 20-year period, both with and without the Program. The benefits in this evaluation consisted of the variation in user costs attributable to the time savings generated as a result of the interventions planned under the EU contribution in Component 2, and the variation in costs attributable to construction and operation of the facilities (investments, maintenance, and operating costs).
- 3.21 Considering the net flow of economic costs for that component over the analysis period, the following were calculated: net present value (NPV) at a 12% discount rate; the economic internal rate of return (EIRR), the benefit-cost ratio; and the NPV-to-investment ratio. A sensitivity analysis was also performed (using a Monte Carlo simulation) to evaluate the impact of a significant number of events (20,000 iterations), assuming a given probability distribution and within specific ranges of variation in Component 2 costs and benefits. The results of this simulation revealed a high probability (99.5%) that the EIRR for San Pancho would exceed 14.2%. There is a similar probability that the NPV will exceed US\$2.4 million. For further detail, see the economic evaluation of the San Pancho border crossing ([optional electronic link 12](#)).

Table I.4 – Benefit/cost analysis for Component 2

Border crossing	Scenario	Return indicators			
		Amount (US\$)	EIRR (%)	Benefit-cost ratio	NPV-to-investment ratio
San Pancho	Base case	4,700,000	16.5	1.33	0.37
	Simulation	2,400,000	14.2	1.16	0.18

- 3.22 In terms of the economic evaluation of the investments under Component 1, the Bank has evaluated similar programs in the region that suggest an additional positive impact on trade (Volpe Martincus, 2016).³¹ Available econometric evidence for Costa Rica, for example, indicates that in the absence of the VUCE the country would have had 2% fewer exports in the 2008-2013 period. If these additional VUCE-generated exports are compared to the costs of implementing the scheme,

³¹ Out of the Border Labyrinth: An Assessment of Trade Facilitation Initiatives in Latin America and the Caribbean.

the result is a ratio of US\$16 in new exports for each US\$1 invested. The impact of the other trade facilitation programs, such as risk management systems and AEO programs, is similar or even greater. Given that Nicaragua's exports stood at US\$4.667 billion in 2015, and assuming that the group of investments under Component 1 has the same impact on exports as the VUCE did in Costa Rica, then these investments would lead to approximately US\$93 million in additional exports, indicating a benefit/cost ratio of US\$12 for each US\$1 invested. This ratio would remain above one even if the impact on exports were only 10% of that observed in Costa Rica. Consequently, the interventions proposed under this operation are expected to have a combined net positive effect.

IV. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 4.1 The EU's contribution will be provided to the Bank in the form of a PSG. The Bank will administer this PSG in accordance with the provisions of the Report on COFABs, Ad-Hocs and CLFGs and a Proposal to Unify Them as Project Specific Grants (document SC-114) and the Operational Guidelines (document GN-2605-4). The EU resources are contingent on the signing of a Delegation Agreement between the Bank and the EU, based on the terms and conditions laid out in the Framework Agreement. The amount received by the Bank in euros will be converted to U.S. dollars to be transferred to the Nicaraguan government for project execution. Documentation of eligible expenditures disbursed in U.S. dollars by the Bank to the executing agency will be converted using the same exchange rate used for conversion into dollars. Pursuant to the Framework Agreement, the EU contribution will include a 5.8% project administration fee in the Bank's favor. This fee will be calculated as a percentage of the total value of expenditures declared eligible by the EU.
- 4.2 For the purposes of the EU supplementary resources, the Bank will sign a nonreimbursable investment-financing agreement with the Republic of Nicaragua (represented by the MHCP), consistent with the terms and conditions applicable to this type of operation. This will include the specific obligations of the executing agency pursuant to the terms of the Framework Agreement. The executing agent will open a financial control account for the operation in U.S. dollars within the Treasury Single Account managed by the Central Bank of Nicaragua. Commitments, contracts, and payments to international vendors and consultants will be denominated in U.S. dollars. Commitments and contracts of local origin will be denominated in U.S. dollars, and payments will be for the equivalent value in local currency (Nicaraguan córdobas). These payments will only be made from the specific financial control account in the Treasury and/or from a special account at a commercial bank. In addition, the Bank will sign the relevant contract modification for loan 3484/BL-NI with a view to including the total cost of program resources and the adjustments necessitated by the reformulation.

B. Environmental and social risks

- 4.3 Consistent with the Environment and Safeguards Compliance Policy (Operational Policy OP-703), the operation was classified as category "B" due to the fact that its adverse environmental and social impacts will be of a temporary, localized nature,

- and effective measures are available to avoid and/or mitigate them. All project works will be carried out on lands already occupied by the current border crossing, and there is therefore no need to acquire any land. There are no homes within the immediate area of the project and no physical population resettlement is therefore expected. The project will lead to the economic displacement of self-employed workers currently working at the border crossing (46 according to the last survey), of which 26 are men and 20 are women. As part of the implementation of operation 3484/BL-NI, the government has developed a Plan de Restauración de Medios de Vida [Livelihood Restoration Plan] (published as the Involuntary Resettlement Plan); this aims to minimize the impact of displacement and reestablish sources of income for the displaced workers. This plan is consistent with the Involuntary Resettlement Policy (Operational Policy OP-710) and has been subject to consultation with the affected workers.³² The report on the consultations is available, as are the records of each worker's acceptance of the proposed compensation options. Before moving to the bidding process for the works, this plan needs to be updated to include a definitive survey, the final compensation options selected by each of the affected workers included in the survey, the time frame for implementation, and a communication and participation plan. Implementation of the plan based on the time frame therein will be a condition for launching the works.
- 4.4 At the environmental level, given that the project is to be developed on the same land as the current border crossing, no significant impacts are expected beyond those that are common in these types of civil works. The border crossing is located close to the Costa Rica-Nicaragua Corredor Fronterizo Wildlife Refuge, which is a critical natural habitat; however, as the works are to take place in an area that has already been developed, the impact is expected to be very low. The ESMP has been prepared for the construction works planned using funds from the EU contribution.³³ Execution of the activities financed by both the supplementary resources and those of the Bank will be subject to compliance with all of the socioenvironmental safeguard requirements and conditions identified in the ESMP. The operation is therefore currently considered to have the analyses and plans necessary to prevent and/or mitigate the expected impacts.
- 4.5 Consistent with the Policy for Disaster Risk Management (document OP-704), the operation is deemed to be of a medium level of risk due to the area's vulnerability to earthquakes, hurricanes, and tropical storms. Prior to initiation of the works, geological and geotechnical studies will be conducted of the project site, and structural designs will take into account the permissible load pressure scenarios for the works. In terms of hydrometeorological events, the contractor will analyze existing records (relating to Hurricane Otto in particular) and design systems able to withstand similar wind and precipitation loads, as these are expected to reoccur. The contractor will have an emergency plan in place in the event of a disaster.
- 4.6 **Gender considerations.** In accordance with the Policy on Gender Equality in Development (Operational Policy OP-761), this operation will include the following actions: (i) the planned training for public officials and business people in handling the new systems and administration and inspection processes will promote equal

³² See [public consultations](#) link.

³³ See [ESMP](#).

opportunities for participation by men and women. This equitable participation will be facilitated by the following: (a) offering training at different times and in different formats (online and classroom-based); (b) enrollment in the training sessions will be by invitation and application, thus ensuring satisfactory gender balance; (c) calls for participation by private operators will be actively publicized through female exporters' associations; and (d) participation reports will be disaggregated by gender; (ii) if necessary, the public consultation process will include different events to ensure the participation of men and women; and (iii) any obstacles to equality of service and the equitable use of services by women and men will be eliminated from the bidding documents. Additionally, bidding firms that offer mixed teams of specialists and consultants (with data broken down by gender) and provide details of the gender equality policies to be followed during contract execution will be viewed positively.

C. Fiduciary and execution risks

- 4.7 The executing agency has experience in executing both EU and Bank financing,³⁴ but its capacity to implement institutional strengthening projects under the new Framework Agreement between the EU and the Bank constitutes a significant risk. Difficulties include (i) its limited budget; (ii) scant human resources; and (iii) potential turnover among the staff benefiting from training, with adverse consequences for the results sought under the operation. This risk will be mitigated through Bank training of the executing agency in Pillar Assessed Grant or Delegation Agreement (PAGODA) standards. At the same time, the updated results of the fiduciary institutional capacity analysis carried out of the CGPP confirm that its technical and fiduciary capacities require strengthening. As a prior condition, the CGPP will therefore strengthen its capacity by hiring the following full-time staff members for the duration of the execution period: (i) a systems specialist, (ii) an accountant, (iii) a filing specialist for the administrative and financial areas and information systems, and (iv) a procurement specialist. There is also a need to strengthen training programs concerning Bank rules and Nicaragua's internal audit standards.
- 4.8 Given that the Bank will receive the EU contribution in euros but disburse the funds in U.S. dollars, a possible devaluation of the euro could endanger the financing of project activities. To cover this eventuality, the Republic of Nicaragua will provide additional contingent cash funds equivalent to 5% of the value of the EU contribution (€1,000,000.00). This amount will be used to cover any exchange rate losses or other contingencies that may arise under the operation. The exchange rate loss contribution will become effective in the final year of execution only in the event that cumulative exchange rate variations yield a net exchange rate loss that places the fulfillment of project objectives at risk.
- 4.9 Pursuant to EU rules, the last payment is contingent on approval of the final report. A lack of liquidity for financing the final payments could endanger project completion. The resources provided by the government will ensure that funds are available to

³⁴ Operations: 3484/BL-NI,1545/SF-NI; ATN/OC-130340-NI; ATN/SF-11416-NI; ATN/OC-14201-NI; ATN/SF-12502-NI; ATN/OC-13856-NI; ATN/OC-13517-NI; ATN/SF-11815-NI; ATN/OC-14014-NI; and ATN/EX-14260-NI.

meet final payments prior to receiving the last disbursement; this disbursement will be released once the final report has been approved by the EU.

- 4.10 **Sustainability of investments.** Modernization of the border crossings is a critical element of Nicaragua's long-term strategy for facilitating trade, and it represents the commitment to the private sector. The private sector has actively promoted the design of this strategy, and is interested in ensuring that it is both fully implemented and sustainable. This operation includes training activities for both the public and private sectors in using and leveraging these investments. The beneficiary will be responsible for maintaining the equipment and systems financed.
- 4.11 **Other execution risks.** Problems of coordination with neighboring countries may arise during project execution in respect of boundary demarcation, differences in execution cycles, information sharing, and preparation for the opening and operation of border crossings. These situations will be discussed in the periodic binational coordination meetings. The project may also face the risk of cost overruns during the execution of works, but the costs have been updated and the designs will, to the extent possible, avoid expanding the border crossing area.

V. EXECUTION AND ADMINISTRATION PLAN

A. Summary of execution arrangements

- 5.1 The Ministry of Finance (MHCP),³⁵ through the General Coordination Office for Programs and Projects (CGPP), will remain the executing agency for both the Program and the supplementary financing, continuing with the same execution arrangements used for operation 3484/BL-NI, which has functioned in a satisfactory manner to date. The institutional capacity assessment for the CGPP has been updated taking into account the incorporation of this additional financing. The assessment recommended continuing to develop the CGPP's capacity by hiring additional specialists.
- 5.2 To ensure optimum execution of the EU contribution and its coordination with the Program, the CGPP will manage the financing from both sources in an integrated manner, using a single set of planning and monitoring instruments. In addition, funds from the EU contribution will be subject to the governance framework for the Program, i.e. the Program's Strategic Steering Committee will conduct periodic supervision of the EU contribution and provide strategic orientation to ensure that the objectives and expected results are fulfilled. The Program Technical Committee will provide support for technical decision-making. A variety of agencies are represented on both committees. Existing interagency cooperation agreements will be expanded to include commitments associated with incorporating the funds from the EU contribution, involving areas such as interagency collaboration and coordination to determine the characteristics of the infrastructure, equipment, and

³⁵ The MHCP is responsible for approving budgets to ensure that State institutions can provide services in accordance with public policy priorities. The following institutions also exercise specific controls at border crossings: the Customs Services Bureau, the Ministry of Development, Industry, and Trade, the National Police, the National Army, the Agricultural Health and Protection Institute, the Immigration and Alien Registration Bureau, the Ministry of the Interior, the National Commission for the Registration and Control of Toxic Substances, and the Ministry of Health.

systems to be purchased, and timely decision-making and monitoring of the execution of the agreed actions. The executing agency may participate in periodic meetings regarding the review of all aspects of program execution. Similarly, the Bank may invite the executing agency to participate in an annual administration mission that will review strategic planning for the Program with beneficiary institutions.

- 5.3 **Procurement.** The executing agency will procure goods, works, services, and consulting services pursuant to the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9), the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), the Guide for the Acceptance of the Use of Country Procurement Systems (document GN-2538-13), other internal Bank procedures, and the Framework Agreement between the European Union and the Bank (see paragraphs 4.13 and 4.14 of document GN-2605-2). These documents stipulate that: (i) all procurement processes under the Program are open to suppliers, consultants, contractors, and service providers of the Bank's member countries and countries that the EU recognizes as eligible (those included on the list published as an annex to the document "Practical Guide to Contract Procedures for European Union External Actions"); and (ii) the borrower or the beneficiary will maintain the relevant documentation during the execution of the Program for a period of no less than five years from the date of the last disbursement.
- 5.4 Financial management of the loan will be based on the financial management guidelines for IDB-financed projects (document OP-273-6), and loan proceeds will be transferred to an account handled by the Central Bank of Nicaragua under the Treasury Single Account. The Bank can provide an advance of funds based on the project's liquidity needs to finance expenses for up to six months pursuant to a financial plan. Once at least 80% of the advance has been justified, a new disbursement can be made. The executing agency will submit annual financial statements audited by an independent firm acceptable to the Bank within 90 days after the end of the fiscal year and of the date of the last disbursement.³⁶
- 5.5 **The following will be special contractual clauses precedent to the first disbursement of funds from the EU contribution: (i) the program Operating Regulations will have been updated and entered into effect in accordance with the terms previously agreed with the Bank; and (ii) specialists in accounting, procurement, and filing and information systems will have been hired to support the CGPP of the MHCP.**
- 5.6 If at the end of the execution period the project closes with a positive balance and with expenditure items not committed or spent, the subsequent process will be governed by Annex III of this document.
- 5.7 **Communication and visibility.** Execution will include communication and visibility measures based on a specific plan of action. The Bank, through the executing agency, will ensure appropriate strategic communication actions to ensure visibility

³⁶ All reports and correspondence between the MHCP, the Bank, and the EU will be in Spanish.

of the EU, the Bank, and the Nicaraguan government. The appropriate contractual obligations will be included in the respective procurement contracts.

- 5.8 The executing agency will use the EU's Communication and Visibility Manual for European Union External Actions to create the strategic communication and visibility plan for the action, as well as the appropriate contractual obligations. The Communication Strategy is attached to the Delegation Agreement (Annex VI) and it will be developed by the executing agency in a communication plan that identifies the specific communication and visibility tools and actions that will be developed during implementation of the action. The executing agency will submit the plan to the EU for approval during the first six months of implementation of the EU contribution.

B. Summary of monitoring and evaluation measures

- 5.9 Monitoring and evaluation of the EU financing will take into account the targets and progress indicators that have been incorporated in Annex II (Results Matrix). The Bank will monitor the Program through inspection visits and administration missions. The EU may conduct additional monitoring visits involving its own staff or independent consultants hired directly to perform independent monitoring reviews; project documentation must be available to these teams at all times. Program monitoring and evaluation measures remain unchanged.
- 5.10 The reports that the Bank must submit to the EU will be prepared in accordance with the guidelines included in document GN-2605-4.
- 5.11 Monitoring and evaluation of the operation will be coordinated by the CGPP, which must have the appropriate systems to: (i) compile periodic information on physical and financial progress; and (ii) maintain, in an accessible and up-to-date format, relevant information on execution of the operation. Monitoring and evaluation of the supplementary financing will make use of the following instruments, which will be integrated into the respective Program instruments: (i) the annual work plan, program execution plan, and procurement plan; (ii) semiannual program monitoring reports; (iii) audited financial statements; (iv) midterm evaluation; and (v) the project completion report, including an ex post evaluation based on the model developed ex ante (see monitoring and evaluation plan ([required electronic link 2](#)) for the EU contribution).

VI. PROJECT TEAM RECOMMENDATIONS

- 6.1 Based on the information in this document, and in light of the fact that the supplementary financing was not specifically envisaged in the loan proposal for program 3484/BL-NI originally approved by the Bank's Board of Executive Directors; that said financing will be administered by the Bank through a PSG; and that modifications need to be made to the Program as a result of that financing, the project team recommends that the Board of Executive Directors, based on the provisions of document DR-398-17 (Regulations of the Board of Executive Directors of the Inter-American Development Bank) and paragraph 6 of document CS-3953-2 (List of Matters that Can be Considered by the Board via Short Procedure), approve by short procedure the modifications to the Program described in this document, and that it approve the resolution attached to this document as Appendix I, with a view to amending Resolutions DE-40/15 and DE-41/15 of 17 June

2015 and supplementing the financing envisaged therein with the supplementary financing from the EU. The team also recommends that the Board authorize the President of the Bank or such representative as he shall designate, in the name and on behalf of the Bank: (i) to take the necessary actions for the Bank to administer the supplementary financing of up to €20,000,000 provided by the European Union, which includes the Bank's administrative costs, as established in this document; (ii) to enter into such agreement or agreements as may be necessary with the Republic of Nicaragua, as beneficiary, for the purpose of granting it the supplementary financing chargeable against the EU contribution, with a view to executing the activities envisaged in this document; and (iii) to take such additional steps as may be necessary for execution of the Program chargeable to the resources of the supplementary financing under item (i) of this paragraph 6.1.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Economic Integration -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Public agencies' processing times of international trade of goods and services * -Professionals from public and private sectors trained or assisted in economic integration (#)* -Regional, sub-regional and extra-regional integration agreements and cooperation initiatives supported (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Ports built or upgraded (#)* -Public registries strengthened (#)* -Business environment reforms enacted (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2683	Build, improve, and rehabilitate highways and rural roads and keep them in a good state of repair, so as to ensure productive sectors have access at all times to both domestic and export markets, with particular emphasis on the Meso-American region.
Country Program Results Matrix		The intervention is not included in the 2017 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		
3. Evidence-based Assessment & Solution	8.4	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	2.4	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	6.0	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	0.0	
4.2 Identified and Quantified Benefits	1.5	
4.3 Identified and Quantified Costs	1.5	
4.4 Reasonable Assumptions	1.5	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	8.7	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	6.2	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	High	
Identified risks have been rated for magnitude and likelihood		
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting. Procurement: Information System.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality	Yes	Output indicators have been formulated to assure that 50% of trainees are women.
Labor		
Environment		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The Bank Integration and Transportation sectors have supported related activities through the following operations: RG-T1982, RG-T2053, RG-T1660, RG-T1662, RG-T2267, and RG-T1744.
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	The impact evaluation will use a differences in differences methodology, with a specific exercise with instrumental variables. Up to date there aren't any rigorous studies on the impact of creating a new border crossing and implementing a coordinated border management system. The proposed analysis will allow closing knowledge gaps in the sector.

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

This operation is a project specific grant (PSG) and offers supplementary funding via a contribution of €20 million from the European Union (EU). These funds complement a running operation (3484 / BL-NI), which will be reformulated as a condition for the use of these EU resources. The objective of this project is to support the strengthening of Nicaragua's external trade competitiveness through the modernization of land border crossings (PFs, from their acronym in Spanish). The specific objectives are to support: (i) the implementation of a physical and normative system of processes and tools of effective control for the PFs of Nicaragua; and (ii) the modernization of the PF of San Pancho, providing it with infrastructure, systems and equipment.

The vertical logic that justifies these interventions is well grounded, and even more so in the context of the operation under way. There is clear evidence of the need for the interventions (infrastructure deficiencies, poor quality of logistics services, and low efficiency of customs processes, resulting in increases in transport costs), and of their effectiveness, based on other experiences in similar contexts.

The economic analysis for the modernization component of the San Pancho PF is well developed and uses reasonable assumptions and standard methodologies to measure ex-ante the expected net benefits of the program. For the component seeking the implementation of a physical and normative system for control of the PFs of Nicaragua, a standard economic analysis is not presented, but there is solid evidence of similar interventions in the region that show highly positive expected impacts. Overall, the ex-ante analysis suggests that a positive net return from this intervention should be expected.

The monitoring and evaluation plan is complete, proposing a combination of non-experimental and cost-effective ex-post techniques to measure the impact of the program. The design is appropriate to the characteristics of the project.

RESULTS MATRIX

Overall objective	The program's overall objective is to support the strengthening of Nicaragua's foreign trade competitiveness by strengthening its border crossings. The specific objectives are to support: (i) implementation of a physical and regulatory system of effective control processes and tools for Nicaragua's border crossings; and (ii) modernization of the San Pancho border crossing, endowing it with infrastructure, systems, and equipment.
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IMPACTS

Indicators/unit of measurement process	Baseline 2015	Final target 2020	Source/means of verification	Comments
Impact: Increased competitiveness and integration				
Global Competitiveness Index ¹	3.8 (99/144)	4.1	World Economic Forum	The index monitors, on a scale of 1 to 7, the competitiveness and productivity ranking and trends of 148 countries. This impact relates to all of the border crossings due to the difficulty of isolating impact.
Customs procedures efficiency index	3.1 (130/144)	4.2	Global Competitiveness Report	Evaluates, on a scale of 1 to 7, the efficiency of customs procedures. This impact relates to all of the border crossings due to the difficulty of isolating impact.

¹ The Global Competitiveness Report 2014-2015, World Economic Forum.

OUTCOMES

Indicators/unit of measurement process		Process		Baseline 2015	Final target 2020	Source/means of verification	Comments
Expected outcome 1. More efficient customs management at border crossings							
Annual percentage of customs operations with information sent electronically and in advance		Import		10%	50%	VUCEN statistics	This advanced declaration is prepared by the Customs Services Bureau (DGA) and sent electronically to VUCEN. It is sent when the transportation unit leaves the outgoing customs station in the country of origin.
		Export ²					
Percentage of customs permits transmitted via the VUCEN platform		Export		26%	80%	VUCEN statistics	VUCEN currently handles 44 customs permits or certificates (23 for exports and 21 for imports).
		Import		26%	80%		
Percentage of intrusive and nonintrusive physical inspections applied to “red channel” declarations		Imports SP ³	Red	0	4%	Customs Procedures Division of the DGA with information from the SIDUNEA World database	A risk analysis determines whether declarations will be subject to documentary inspection (yellow), physical inspection (red), or “no inspection.”
			Yellow	0	3%		
		Exports SP	Red	0	2%		
Average clearance time for the “red channel” (hours)	SP	Import		0	0.6	Final evaluation report on the results of the Program using information from the SIDUNEA World database	
Regional initiatives supported				0	3	Ministry of Development, Industry, and Trade (MIFIC) statistics	World Trade Organization Trade Facilitation Agreement; Central American Trade Facilitation Strategy; and Customs Union Framework Agreement

² These transactions are currently handled by the Centro de Trámites de Exportaciones [Export Formalities Center], but the program will integrate them into the VUCEN system.

³ SP – San Pancho.

Indicators/unit of measurement process	Process	Baseline 2015	Final target 2020	Source/means of verification	Comments
Government agencies benefiting from projects that strengthen technological and management tools to improve service provision		0	8	Final report	The eight institutions participating in the program will have simplified, automated processes for processing import and export permits.
Improved public records		0	1	VUCEN statistics	VUCEN will record imports and exports with greater accuracy.
Reforms to the business environment enacted		0	1	Final report	The Coordinated Border Management model provides an environment that facilitates trade, as it automates transactions.
Expected outcome 2. Improved perception of service quality at the San Pancho border crossing					
Index of user satisfaction with the border crossing (%)	Truck drivers	0	70%	Consultant's report; satisfaction survey	70% is the minimum satisfactory level (equivalent to 4 out of 5 on the Likert scale).
	Tourists	0	70%		
Expected outcome 3. Improved efficiency at the border crossing					
San Pancho border crossing					
Maximum freight processing capacity at the border station (TU/day)	Import	0	229	Means of verification ⁴ Final evaluation report on the results of the Program using information from the SIDUNEA World database	
	Export	0	107		
Average total border crossing time (hours/TU)	Import	0	1.60		Average time taken for a TU to cross the border from the moment it enters the first inspection line until it receives permission to continue to its destination. Does not cover the six hour window (12:00 to 6:00 a.m.) during which the border crossing is closed.
	Export	0	1.31		
	Units entering	0	0.95		

⁴ Report prepared by the consulting firm responsible for developing the baseline and simulating the conditions "with the project" at each of the border crossings.

Indicators/unit of measurement process	Process	Baseline 2015	Final target 2020	Source/means of verification	Comments
	Units exiting	0	0.93		
	Empty units entering	0	0.92		
	Empty units exiting	0	0.79		
Average queuing time before the freight inspection process begins (minutes/TU)	Export	0	1.37		Average waiting time from the moment the TU enters the queue until it is inspected at the first inspection station
Average transit time for passengers (minutes/passenger)	Direction NI-CR	0	9.40		Average time taken for tourists crossing the border on foot to complete immigration formalities
	Direction CR-NI	0	9.68		

OUTPUTS

Indicators	Unit of measurement	Baseline 2015	Intermediate measurements					Final target	Source/means of verification	Comments
			2017	2018	2019	2020	2021			
Component 1. Effective, efficient fiscal and parafiscal control processes										
1.1 Risk management system coordinated and implemented in all border agencies	Number of systems	0				1		1	Executing agency report	
Milestone 1.1.1 Process reengineering and dispatch control systems implemented	Processes	0			1			1	Consultant's report	

Indicators	Unit of measurement	Baseline 2015	Intermediate measurements					Final target	Source/means of verification	Comments
			2017	2018	2019	2020	2021			
Milestone 1.1.2 Public officials trained in the risk management system	Public officials	0		80	120	160		360	Executing agency report	
1.2 Expanded VUCEN integrates the recording systems of 16 state agencies	Number of systems	0				1		1	Executing agency report	
Milestone 1.2.1. Officials and/or private operators trained in handling new management and inspection systems and processes (VUCEN)	Women	0			25	30	20	75	Executing agency report	Training received at the border. Participation reports will be disaggregated by gender.
	Men	0			25	30	20	75		
1.3 Regulatory reform projects that affect customs inspection procedures, implemented at the borders	Number of projects	0	2	3				5	Documents validated by MHCP	Changes to current regulations regarding best practices and new provisions on trade facilitation.
Milestone 1.3.1 Integration agreements and regional and subregional cooperation initiatives supported	Agreements	0	1	1	1			3	MIFIC existing trade agreements	
Milestone 1.3.2 Business people and/or public officials trained in regulatory reforms that affect customs inspection procedures	Business people/public officials	0			30	60	70	160	Executing agency report	
1.4 Management control systems developed and implemented at each border crossing	Number of systems	0				1		1	Executing agency report	

Indicators	Unit of measurement	Baseline 2015	Intermediate measurements					Final target	Source/means of verification	Comments
			2017	2018	2019	2020	2021			
Milestone 1.4.1 Study of the proposed dimensions and mapping of variable and fixed areas at each Border Crossing	Studies	0						0		
1.5 Business people and/or public officials who have received technical assistance and training in trade and investment matters	Women	0			100	90	110	300	Executing agency report	Training for private operators and public officials in working with the new systems and processes to be implemented.
	Men	0			100	90	110	300		
Component 2. Investments in infrastructure and equipment										
2.3 San Pancho border crossing, with modernized infrastructure	Border crossing	0				1		1	Executing agency report	
Milestone 2.3.1. Design and construction contract signed				1				1		Call for tenders published in November 2017 and contract awarded in June 2018
Milestone 2.3.2. Final designs approved					1			1		Eight months to prepare designs (February 2019).
2.4 San Pancho border crossing, equipped	Border crossing	0				1		1	Executing agency report	Automated inspection centers, laboratories, nonintrusive inspection systems installed, and service teams functioning
Environmental and Social Management Plan executed	Number of plans	0				1		1	Executing agency report	Includes resettlement plan for the relocation of self-employed workers

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Nicaragua
Project number:	NI-L1083 (3484/BL-NI) and NI-G1020
Project name:	Border Integration Program and Supplementary Financing
Executing agency:	Ministry of Finance and Public Credit (MHCP) through its General Coordination Office for Programs and Projects (CGPP)
Fiduciary team:	Santiago Castillo and Osmín Mondragón (FMP/CNI)

I. EXECUTIVE SUMMARY

- 1.1 The executing agency will be the MHCP, through the CGPP, which will be responsible for the execution and technical and financial supervision of the program. It will lead the technical and strategic coordination of the participating government entities active at the border crossings: (i) the Customs Services Bureau; (ii) the Ministry of Development, Industry, and Trade; (iii) the Immigration and Alien Registration Bureau in the Ministry of the Interior; (iv) the National Police; (v) the Agricultural Health and Protection Institute; (vi) the National Army; (vii) the Ministry of Health; (viii) the National Commission for the Registration and Control of Toxic Substances; and (ix) the Nicaraguan Tourist Board.
- 1.2 Fiduciary management in Nicaragua is improving in the area of procurement, and it is therefore important to foster a variety of actions that are compatible with international best practices and consistent with Bank policies.
- 1.3 Fiduciary agreements and requirements for the Program are based on the results of the updated institutional capacity analysis (Institutional Capacity Assessment System methodology), which yielded moderately satisfactory development results and a medium level of risk. The CGPP has experience executing IDB projects such as operations 1545/SF-NI and ATN/ER-14260-NI. Nonetheless, mitigation measures will be adopted involving the hiring of additional staff and updated training in Bank rules and procedures to ensure that it can operate under the ex post disbursement review modality.
- 1.4 The total budget for the Program is US\$81,959,000, which includes the EU contribution (€20 million) and local counterpart funding.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The MHCP is governed by Law 290 on the Organization, Jurisdiction, and Procedures of the Executive Branch, and by Law 550 on Financial Administration and the Budget System.

- 2.2 For the purposes of financial management, the CGPP uses the budget, treasury, accounting, and reporting subsystems of the Integrated Financial Management and Audit System (SIGFA) and the Integrated Financial Management and Audit System for Projects (SIGFAPRO). The government is currently implementing improvements to its public administration systems, with a new Integrated Financial Management System (SIGAF). Once this is launched, program data will be migrated to the new system.
- 2.3 Procurement processes operate on an institutional basis and use the Procurement Plan Execution System (SEPA). CGPP staff members have experience in administering projects financed by external cooperation

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 The updated institutional capacity assessment suggests that the CGPP should be strengthened through the hiring of (i) a systems specialist; (ii) an accountant; (iii) a procurement specialist; and (iv) a filing specialist. There is also a need to strengthen training programs covering Bank and EU rules, as well as Nicaragua's Technical Standards for Internal Audit (NTCI).
- 3.2 In terms of procurement and financial management, there is a medium level of risk, and the following actions are therefore suggested: (i) allocate physical space for files; (ii) update the procurement manual; (iii) hire a procurement specialist; (iv) update the manual governing the organization, procedures, and functions of the procurement unit, defining contract administration roles; (v) update the final, approved procedural manuals; (vi) modify the program Operating Regulations; and (vii) develop an information technology tool to support the monitoring of procurement and contract administration processes.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

- 4.1 The following agreements and requirements will be included in the special conditions: (i) submission, to the Bank's satisfaction, of the modified program Operating Regulations setting out the responsibilities of the participating entities and signed by each of them; (ii) to mitigate any exchange rate losses, the exchange rate used will be the one prevailing in Nicaragua on the date the funds are converted into córdobas by the executing agency (option b(1) of the General Conditions of the loan contract); and (iii) submission of audited financial statements within 90 days of the end of the fiscal year and an internal audit assurance report within 30 days of the end of each calendar year, each for the duration of the original disbursement period plus any extensions. For the duration of the original disbursement period plus any extensions, the IDB will submit the audited financial statements to the EU within 120 days of the end of each calendar year.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements and requirements governing procurement establish the provisions that will apply for carrying out all procurement processes called for in the Program.
- 5.2 **Agreements with the EU:** In accordance with the Proposal for the Amendment and Restatement of the Framework Agreement between the European Commission and the IDB (document GN-2605-2), the procurement of goods, works, and consulting services using EU funds will be governed by the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9), the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), and the Guide for the Acceptance of the Use of Country Procurement Systems (document GN-2538-13). Procurement processes for works, goods, services, and consultancies will permit the participation of firms and individuals from Bank nonmember countries recognized as eligible by the EU, consistent with the list of eligible countries published as an annex to the Practical Guide to Contract Procedures for European Union External Actions. The Bank will observe the latest version published by the EU on the internet.
- A. Procurement execution**
- 5.3 **Procurement of works, goods and nonconsulting services.** Contracts for works, goods, and nonconsulting services generated under the Program that are subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Procurement processes subject to national competitive bidding will be executed using the country bidding documents agreed upon with the Bank. The sector specialist will be responsible for reviewing technical specifications.
- 5.4 Procurement of information technology systems: Not applicable.
- 5.5 “Turn-key” procurement: Not applicable.
- 5.6 Procurement with community participation: Not applicable.
- B. Selection and contracting of consultants**
- 5.7 Contracts for consulting services will be executed using the Bank’s standard request for proposals. The sector specialist will be responsible for reviewing terms of reference.
- 5.8 Selection of individual consultants: Individual consultants may be hired by placing local or international announcements for the purpose of creating a shortlist of qualified individuals.
- 5.9 Training: Not applicable.
- C. Use of country procurement systems**
- 5.10 The country procurement subsystem approved by the Bank—SISCAE—will be used to publish announcements requesting expressions of interest and/or calls for tender for all procurement processes. Any system or subsystem approved subsequently will be applicable to the operation. The procurement plan for the

operation and its updates will indicate the contracts to be executed using approved country systems.

5.11 (i) Strengthening measures: **not applicable**; (ii) recurrent expenses: **not applicable**; (iii) commercial practices: **not applicable**.

5.12 Advance procurement/retroactive financing: **Not applicable**.

5.13 Domestic preference: **Not applicable**.

D. Thresholds for ICB and shortlists with international participants (US\$ thousand)

Method	ICB Works	ICB goods and nonconsulting services	International shortlist for consulting services
Thresholds	> 1,500	> 150	> 200

E. Main procurement items

Activity	Selection method	Estimated date of call for proposals / tenders	Estimated amount (US\$ thousands)
Works			
Design and construction of San Pancho border crossing infrastructure	ICB	January 2018	9,252,230
Goods			
Risk management system equipment and servers	ICB	April 2018	830,880
Management control system equipment and servers	ICB	April 2018	430,000
VUCEN equipment	ICB	November 2018	350,000
Nonconsulting Services			
Dissemination campaign for AEOs	ICB	June 2018	281,700
Firms			
Supervision of San Pancho border crossing works	QCBS	December 2018	842,270

- 5.14 **Procurement supervision.** The method for supervising procurement for each process will be set out in the procurement plan. Ex post reviews will be conducted every six months in accordance with the supervision plan for the operation. Ex post review reports will include at least one physical inspection visit. No fewer than 10% of contracts reviewed must be inspected physically.

Threshold for ex post review		
Works	Goods	Consulting Services
US\$150,000.00	US\$25,000.00	US\$200,000.00

Note: Thresholds for ex post review are based on the executing agency's fiduciary capacity and may be amended by the Bank if that capacity changes.

- 5.15 **Special provisions**
- 5.16 To reduce the likelihood of corruption: adopt an institutional code of ethics and conduct for staff, with special emphasis on conflict of interest.
- 5.17 Other special procedures: **Not applicable.**

F. Records and files

- 5.18 Fiduciary management documentation will be kept in orderly files and records stored under secure conditions in the offices of the CGPP, using the reporting forms described in the program Operating Regulations. The executing agency will store original program documentation for a period of five years following the final disbursement, or for a longer period if the Bank is made aware of any complaint submitted before the cutoff date (document GN-2602-2, paragraph 4.14).

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 6.1 **Programming and budget.** The CGPP will ensure that budget allocations are in place so that sufficient budget credits are available to cover annual execution commitments, and it will use SIGFAPRO for financial and accounting records and control.
- 6.2 **Disbursements and cash flow.** The IDB will transfer disbursements to the executing agency through the MHCP's U.S. dollar-denominated Treasury Single Account in the Central Bank. A ledger sub-account denominated in U.S. dollars and linked to an account in córdobas will be maintained for the purposes of financial control. Disbursements will be made based on the Program's liquidity needs, in accordance with a 180-day financial plan. A new disbursement may be made once at least 80% of the disbursement has been justified, consistent with the project execution plan.
- 6.3 The IDB will submit an annual request for payment in euros from the EU, as follows: (i) initial prefinancing within 30 days of receiving the Delegation Agreement signed by the IDB and EU; (ii) subsequent payments will be made once at least 70% of the last payment has been committed and 100% of the payment preceding that has been justified; (iii) each subsequent payment must be accompanied by a descriptive report, a financial report, and a disbursement request. Amounts

- received by the IDB in euros will be converted to U.S. dollars to be transferred to the executing agency. Documentation of eligible expenditures disbursed in U.S. dollars to the executing agency will be converted using the same exchange rate used for conversion into dollars. To mitigate any possible exchange rate losses, the executing agency will provide additional resources of US\$1,200,000.
- 6.4 **Accounting and financial reports.** The audited financial statements will be issued annually in accordance with International Accounting Standards and in a manner consistent with the Bank's Financial Management Policy (document OP-273-6) and the Pillar Assessed Grant or Delegation Agreement 1. In addition, for the duration of the original disbursement period plus any extensions, an internal audit assurance report will be submitted within 30 days of the end of each calendar year.
- 6.5 **Internal control and audit.** Controls are governed by the Technical Standards for Internal Audit. The MHCP has an internal audit unit that, to the extent possible, is expected to review program execution.
- 6.6 **External control and reports.** The CGPP will hire an eligible independent audit firm following IDB procedures. The external audit reports for the Program will be prepared in accordance with International Accounting Standards, and will be presented within 90 calendar days of the end of each fiscal year during the disbursement phase, and 90 days of the end of the original disbursement period plus any extensions. The audited annual financial statements will be prepared in accordance with both the Pillar Assessed Grant or Delegation Agreement 1 and the guidelines for financial and external audit reports on Bank-financed projects. The internal audit assurance report, as mentioned in paragraph 4.1, will be submitted within 30 days of the end of each calendar year for the duration of the original disbursement period plus any extensions.
- A. Financial supervision plan**
- 6.7 Program financial monitoring will be conducted using the unaudited financial reports. Though it is the responsibility of the CGPP to monitor and control centralized and decentralized operations, the following actions will be implemented: (i) a launch workshop will be held prior to the first disbursement to update fiduciary management instruments; (ii) accounting and financial visits will be conducted to verify progress in project execution; and (iii) ex post disbursement reviews will be conducted, for which Bank staff and the external auditor will be responsible.
- 6.8 **Execution mechanism.** The CGPP will act on behalf of the MHCP to centralize execution of payments and commitments under the operation, in coordination with the entities participating in the Program.

**PROPOSAL FOR REFORMULATION TO THE BORDER INTEGRATION PROGRAM
(Non-reimbursable Contribution for Projects Specific Grants (PSG))**

NI-G1020

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the operation received the letter of commitment for financing by the **European Commission (ECR)** for up to **€20,000,000 (equivalent to US\$23,580,000)** confirmed by Kai Hertz (ORP/GCM) on November 16, 2017.

Certified by:

(Original Signed)

11/21/17

Sonia M. Rivera

Date

Chief

Grants and Co-Financing Management Unit
ORP/GCM

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/17

Nicaragua. Reformulation of the Border Integration Program (NI-L1083)
and Complementary Nonreimbursable Investment Financing GRT/___-_____-NI

WHEREAS:

The European Union granted a complementary financing for the execution of the Border Integration Program (the "Program"), approved by the Board of Executive Directors of the Bank by Resolutions DE-40/15 and DE-41/15, of 17 June 2015; and

The complementary financing was not foreseen in the original formulation of the Program and it will be administered by the Inter-American Development Bank (the "Bank") through a nonreimbursable investment financing, it is necessary to amend Resolutions DE-40/15 and DE-41/15.

The Board of Executive Directors

RESOLVES:

1. To approve the amendment to Resolutions DE-40/15 and DE-41/15 which approved the financing of the Border Integration Program to include the complementary financing granted by the European Union, and the reformulation to the Program in accordance with the provisions contained in Document PR-_____.

2. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank: (i) to take the necessary actions as may be pertinent for the Bank to administer a complementary financing granted by the European Union of up to the amount of €20,000,000 in accordance with the provisions contained in Document PR--_____; (ii) to enter into such agreements as may be necessary with the Republic of Nicaragua, as beneficiary, to grant it a nonreimbursable investment financing, which complements the financing approved by Resolutions DE-40/15 and DE-41/15, to cooperate in the execution of the Border Integration Program; and (iii) to take such additional measures as may be pertinent for the execution of the Program.

3. That the authorization granted in paragraph 2 above will only be effective once the Bank and the European Union have entered into the corresponding Delegation Agreement in accordance with the terms and conditions set forth in the Framework Agreement to receive and administer the resources granted by the European Union.

(Adopted on __ _____ 2017)