

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

NICARAGUA

BORDER INTEGRATION PROGRAM

(NI-L1083)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Jaime Granados (TIU/CCR), Project Team Leader; Alfonso Salazar (TSP/CNI), Alternate Project Team Leader; Sandra Corcuera, Christian Volpe, Cinthya Alfaro, Oscar Vasco (INT/TIU), Agustín Sarriá (TIU/CES); Margarita Libby (TIU/CGU); Juan Manuel Leño (TSP/CPN); Edgar Zamora; Sofia Fallas Barquero and Carlos Patiño (TSP/CCR); Taos Aliouat (LEG/SGO); Juan Carlos Pérez Zamora (VPS/ESG); Santiago Castillo, Osmín Mondragón (FMP/CNI); and Luis Enrique Miranda (CID/CNI).

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.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
A.	Background, problem addressed, and rationale.....	1
B.	Objectives, components, and costs	7
C.	Key indicators in the results framework.....	9
II.	FINANCING STRUCTURE AND MAIN RISKS.....	10
A.	Financing instrument.....	10
B.	Environmental and social risks	11
C.	Fiduciary and execution risks	12
III.	IMPLEMENTATION AND MANAGEMENT PLAN.....	12
A.	Summary of implementation arrangements.....	12
B.	Summary of monitoring and evaluation arrangements	15

ANNEXES	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

ELECTRONIC LINKS	
Required	
1. Program Execution Plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39568199
2. Annual Work Plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39568203
3. Monitoring and Evaluation Plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39575151
4. Procurement Plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39568128
5. Environmental and Social Management Report	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39599534
Optional	
1. Institutional Fiduciary Capacity Assessment applied to the General Coordination Office for Programs and Projects (CGPP) of the Ministry of Finance (MHCP)	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39575395
2. Annexes – Institutional Capacity Assessment	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39575396
3. Work Breakdown Structure	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39568168
4. Coordinated Border Management, a concept paper (in English)	http://www.wcoomd.org/en/topics/research/activities-and-programmes/~media/07A938B0E7E74757B0DE18557FDF35BB.ashx
5. Coordinated Border Management, from theory to practice (in English)	http://www.wcoomd.org/en/topics/research/activities-and-programmes/~media/799443EF399B48C0B18DA2285B034F36.ashx
6. Benchmarking. Crossing Times	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37418090
7. Border crossing control processes Nicaragua-Honduras, El Guasaule crossing	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38854396
8. Border crossing site plan El Guasaule	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38854397
9. Border crossing use plan El Guasaule	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38854398
10. Border crossing zoning plan El Guasaule	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38854400
11. Route plan 1 El Guasaule	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38854401
12. Route plan 2 El Guasaule	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38854402
13. Route plan 3 El Guasaule	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38854403

14. Border crossing control processes Nicaragua-Costa Rica, Peñas Blancas crossing
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38854406>
15. Border crossing site plan Peñas Blancas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38854407>
16. Border crossing use plan Peñas Blancas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38854408>
17. Border crossing zoning plan Peñas Blancas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38854409>
18. Route plan 1 Peñas Blancas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38857766>
19. Route plan 2 Peñas Blancas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38857762>
20. Study for new installations in the national border crossing control centers at the San Pancho-Las Tablillas crossing
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39575383>
21. Route plan 1 San Pancho-Las Tablillas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39340402>
22. Route plan 2 San Pancho-Las Tablillas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39340410>
23. Route plan 3 San Pancho-Las Tablillas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39340418>
24. Route plan 4 San Pancho-Las Tablillas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39340426>
25. Border crossing site plan San Pancho-Las Tablillas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39340430>
26. Border crossing use plan San Pancho-Las Tablillas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39340432>
27. Border crossing zoning plan San Pancho-Las Tablillas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39340434>
28. Final report – Estimation of import processing times in Nicaragua
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39566024>
29. Socioeconomic report Peñas Blancas and Tablillas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38740927>
30. Economic Evaluation Peñas Blancas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39573161>
31. Determination of baseline and savings Peñas Blancas
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39573271>
32. Economic evaluation El Guasaule
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39573717>
33. Determination of baseline and savings El Guasaule
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39573816>
34. Economic evaluation San Pancho
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39577667>
35. Estimation of the probability of cost overruns in operation NI-L1083
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39568229>
36. Proposed organizational structure for the Border Integration Program
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39575246>
37. User satisfaction study (carriers and tourists) for Peñas Blancas and El Guasaule
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39587158>

38. Operation analysis in the context of the Regional Integration Policy
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39569855>
39. Study of theoretical queuing times at the Peñas Blancas border station
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39573891>
40. Study of processing times at border crossings: valuation area El Guasaule
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39573882>
41. Characterization of problems with fiscal and parafiscal controls at Nicaragua's border crossings
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39619572>

ABBREVIATIONS

AEO	Authorized economic operator
B/C	Benefit/cost
BIM	Border Integration Model
CDE	Comité de Dirección Estratégica [Strategic Steering Committee]
CGPP	Coordinación General de Programas y Proyectos [General Coordination Office for Programs and Projects]
DGA	Dirección General de Servicios Aduaneros [Customs Services Bureau]
DR-CAFTA	Dominican Republic–Central America–United States Free Trade Agreement
EIRR	Economic internal rate of return
FSO	Fund for Special Operations
IMF	International Monetary Fund
INE/TSP	Transport Division of the Infrastructure and Environment Sector
INT	Integration and Trade Sector
IPSA	Instituto de Protección y Sanidad Agropecuaria [Agricultural Health and Protection Institute]
LIBOR	London Interbank Offered Rate
MARENA	Ministry of Environment and Natural Resources
MHCP	Ministry of Finance
MIFIC	Ministry of Development, Industry, and Trade
MINSA	Ministry of Health
MSMEs	Micro, small, and medium-sized enterprises
NPV	Net present value
OC	Ordinary Capital
OEL	Optional electronic link
REL	Required electronic link
SCF	Single Currency Facility
TIM	Sistema de Tránsito Internacional de Mercancías [International Goods Transit System]
VUCE	Ventanilla Única de Comercio Exterior [Single Window for Foreign Trade]
VUCEN	Ventanilla Única de Comercio Exterior de Nicaragua [Nicaragua's Single Window for Foreign Trade]

PROJECT SUMMARY

NICARAGUA BORDER INTEGRATION PROGRAM (NI-L1083)

Financial Terms and Conditions					
Borrower: Republic of Nicaragua				Single Currency Facility (SCF) of the Ordinary Capital*	Fund for Special Operations (FSO)
			Amortization period:	30 years	40 years
Executing agency: Ministry of Finance (MHCP) through its General Coordination Office for Programs and Projects (CGPP)			Disbursement period:	5 years	5 years
			Grace period:	6 years	40 years
			Interest rate:	SCF fixed*	0.25%
Source	Amount (US\$)	%	Inspection and supervision fee:	**	N/A
IDB (Ordinary Capital): 60%	33,000,000	57.2	Credit fee:	**	N/A
IDB (FSO): 40%	22,000,000	38.1	Approval currency:	US\$	US\$
Local	2,700,000	4.7			
Total	57,700,000	100			
Project at a Glance					
<p>Objective: The objective of the program is to boost Nicaragua’s foreign trade competitiveness by modernizing the infrastructure, equipment, and border systems at the three border crossings of Peña Blanca, San Pancho, and El Guasaule, in order to guarantee efficient, effective coordination of controls by the responsible institutions. The specific objectives are to (i) implement a physical and regulatory system of effective control processes and tools; and (ii) endow the three border crossings with the infrastructure and equipment needed to effectively implement the processes and tools for controlling freight and people.</p>					
<p>Special contractual conditions precedent to the first disbursement to be fulfilled, to the Bank’s satisfaction, by the borrower: (i) obtain the Bank’s no objection to hiring the following consultants to build the institutional capacity of the CGPP of the MHCP, in accordance with terms of reference agreed on with the Bank: (1) a procurement specialist, (2) an accountant, (3) a specialist in preparing terms of reference and technical specifications, (4) a legal adviser, (5) a project technical coordinator, and (6) a strategic planning specialist; (ii) present evidence that the Strategic Steering Committee has been formally constituted; (iii) present the program Operating Regulations, establishing among other things the responsibilities of each agency involved in program implementation, and present the aide-mémoire on preparation and approval of the Operating Regulations, signed by the main institutions involved in the program, namely the MHCP, the Ministry of Development, Industry, and Trade, the Ministry of the Interior, the Ministry of Health, the Customs Services Bureau, the Agricultural Health and Protection Institute, and the National Police; and (iv) presentation by the CGPP of evidence that a mechanism that includes contractors and supervisors has been adopted for receiving and resolving complaints and claims related to socioenvironmental aspects of the program (paragraph 3.5).</p>					
<p>Special conditions for execution. Prior to the launch of works at each of the three border crossings under Component II, the borrower will present evidence to the Bank’s satisfaction that it has complied with the following conditions: (i) Nicaragua has signed a memorandum of understanding with the neighboring country concerned (Costa Rica or Honduras) for coordinated implementation of the program; (ii) the environmental license from the Ministry of Environment and Natural Resources has been obtained, together with the authorizations that Nicaragua’s environmental legislation requires; (iii) execution of at least 50% of the physical works called for in the corresponding Involuntary Resettlement Plan, as appropriate; and (iv) at least one public consultation has been held as stipulated in the Bank’s environmental and social policies (paragraph 3.6).</p>					

Exceptions to Bank policies: None.					
Project qualifies as:	SEQ []	PTI []	Sector []	Geographic []	Headcount []

* The borrower will pay interest on the outstanding balance of the Ordinary Capital portion of the loan at a LIBOR-based rate. Whenever the outstanding balance reaches 25% of the approved net amount or US\$3 million, whichever is greater, the base rate will be set based on that balance.

** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **General context.** Nicaragua has a small economy that is heavily dependent on trade for its growth and development.¹ Trade with neighboring countries is essential. In 2014, Nicaragua exported US\$5,125.68 million, representing an increase of 6.9% over the previous year, and it imported US\$8,692.80 million, representing growth of 2.62%.² Partner countries in Mesoamerica³ accounted for 25.3% of exports and 32.3% of imports, making this zone Nicaragua's most important trading partner after the United States. This relationship is based on a network of trade agreements that includes the Central American Common Market and free trade treaties.⁴
- 1.2 An important portion of Nicaragua's trade is by land. In this context, transportation infrastructure, customs processes, and infrastructure and equipment at border crossings are key factors in determining the country's competitiveness.⁵ In the absence of an Atlantic port, 38% of exports go by land to ports in Honduras (18% to Puerto Cortés) and Costa Rica (20% to Puerto Limón) for shipment to international markets.
- 1.3 Nicaragua operates several crossings, including El Guasaule, Las Manos, and El Espino on the border with Honduras, and Peña Blanca⁶ on the border with Costa Rica. In addition, Nicaragua has substantially modernized infrastructure for access to the community of San Pancho, on the border with Costa Rica.⁷ The opening of a crossing at San Pancho would allow the exports that now pass through

¹ *Potenciando la Inserción Internacional de Nicaragua*. [Strengthening Nicaragua's International Integration], Policy Note, INT, IDB, 2012.

² Data from the Customs Services Bureau (DGA) which include, for exports, total data and those for the free zone, and for imports, total data, those for the free zone, temporary entry, reimport, and customs warehouses. www.dga.gob.ni/Estadweb/WEB2014.pdf

³ *Trade and Integration Monitor*. Trade and Integration Sector (INT), IDB, 2013.

⁴ Nicaragua has also signed agreements with the European Union, Chile, and DR-CAFTA, among others.

⁵ In all, 25% of delays in international trade are due to poor roads and ports; the remaining 75% can be attributed to inefficient processes. See United Nations Economic Commission for Europe, 2013.

⁶ Various reports and external information sources used in this document make reference to "Peñas Blancas". At the request of the Government of Nicaragua, Bank documents will refer to Peña Blanca.

⁷ The Bank has financed modernization of the Acoyapa-San Carlos Argentina-Las Tablillas access road (145.9 km). As well, Japanese cooperation supported construction of the bridge over the Rio San Juan to facilitate access to San Pancho. Costa Rica and Nicaragua have agreed to open the San Pancho-Las Tablillas border crossing in May 2015, using temporary infrastructure. To date, this crossing has been used on a seasonal basis for transporting oranges grown in Nicaragua for processing in Costa Rican plants.

Peña Blanca en route to Puerto Limón to use that crossing as an alternative, cutting approximately 140 km off the trip.⁸

- 1.4 Nicaragua's trade performance has been good in recent years. However, users of border services take a critical view of the quality of border infrastructure and of customs processes.⁹ The country's positioning in regional trade will depend to a large extent on how it handles the current constraints relating to infrastructure, the quality of logistics services, the efficiency of customs processes, and coordination among agencies and with the private sector.¹⁰
- 1.5 **The problem to be addressed.** Nicaragua faces a serious problem of low quality in the management of its border crossings. The shortcomings in transportation infrastructure and management of border crossings increase transport costs by 4% to 9%,¹¹ and this erodes the country's competitiveness. These shortcomings make their way into the rest of the logistics chain, entailing high costs for users, long border crossing times, and low quality of services with respect to cargo security and risk at the border. This operation will focus on the border crossings of Peña Blanca, El Guasaule, and San Pancho. The first two were selected because they are critical in the context of the Pacific Corridor program, as the principal overland freight route in Central America,¹² while San Pancho is included because it will play a key role in the shipment of exports through the Costa Rican ports of Limón and Moín.
- 1.6 The main factors impairing the quality of management at the three border crossings covered by this operation are: (i) inadequate infrastructure,¹³ which affects the

⁸ This alternative will materialize as Costa Rica develops the border crossing at Las Tablillas, a border town contiguous to San Pancho. The Chilamate-Vuelta de Kooper highway segment needs to be completed: it is now 80% built, and completion is expected for the end of 2015. Through operation CR-L1066, the Bank plans to develop this and to modernize three other border crossings: Peña Blanca, Paso Canoas, and Sixaola. The Bank has sought to coordinate this operation with CR-L1066, with respect both to their content (operating models, infrastructure designs, equipment) and to their approval and execution timetables.

⁹ Survey results are critical. They show satisfaction rates of 43% at Peña Blanca and 22% at El Guasaule for truckers, and 59% and 33%, respectively, for tourists.

¹⁰ The Government of Nicaragua is coordinating trade facilitation management with its private sector, which plays a key role in defining public policies and investment. In 2011, the National Trade Facilitation Committee was established for this purpose (Presidential Decree 12-2011), with participation by the Private Sector Council (COSEP), the Nicaragua Chamber of Commerce, the Chamber of Customs Agents, the Chamber of Industries, the Association of Producers and Exporters of Nicaragua, and the Nicaraguan Council on MSMEs.

¹¹ *Competitive Advantage: Moving Ahead of the Global Competition*, IDB, 2013.

¹² In 2014, Peña Blanca handled the transit of 1,465,145 passengers in both directions, and 2,600,000 tons of freight; 861,068 passengers transited through El Guasaule in 2014, and 2,200,000 tons of freight in 2012.

¹³ At Peña Blanca and El Guasaule, most of the buildings in the primary customs zone are in poor condition and have been encroached on by informal vendors and moneychangers, with inadequate parking and with no segregated or clearly demarcated, regularly maintained separate areas for pedestrian traffic and freight. As San Pancho lacks adequate infrastructure, immigration control is handled at San Carlos, and sanitary controls rely on makeshift infrastructure. The furnishings and equipment at the border control agencies are obsolete and inadequate.

efficiency of processes,¹⁴ leading to high levels of user dissatisfaction,¹⁵ informal economic activities,¹⁶ and a lack of security within the premises,¹⁷ (ii) shortcomings in the institutional capacity for integrated management of border crossings, including the lack of master plans for their development; (iii) limited coordination among border control agencies, resulting in long processing times for users,¹⁸ the absence of integrated risk analysis systems¹⁹ in which all supervisory agencies participate,²⁰ and very little use of the in-transit regime, which means that needless import and export formalities have to be completed at border crossings;²¹ and (iv) the lack of a model for binational coordination of border processes, controls, and infrastructure.

- 1.7 **The government's strategy.** The strategy of the Government of Nicaragua calls for implementing an automated, integrated border management model with provisions for interoperability and information sharing, capable of handling rising demand due

¹⁴ 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 Peña Blanca, by comparison, the average time taken to clear imports without inspection is almost 7 hours; 23 hours to clear imports with intrusive inspection; and more than 1 hour to clear exports. See Benchmarking, Crossing Times, [OEL #6](#).

¹⁵ See footnote 8 above.

¹⁶ The socioeconomic study for Peña Blanca and El Guasaule identified initially 2,150 informal workers whose activity is intimately associated with the border crossing: paperwork, money changing, porters, dispensing of food and beverages, sale of handicrafts, etc.

¹⁷ For fear of robbery and assault, drivers tend not to leave their trucks to handle customs paperwork, and instead hire intermediaries to carry out these procedures, thus adding to transport costs. Moreover, at the border crossings the sterilized areas are encroached on by persons who have nothing to do with the customs process, which makes for insecurity. *Trucking Services in Belize, Central America, and the Dominican Republic: Performance Analysis and Policy Recommendations*, IDB 2013.

¹⁸ In 2012, 43,119 refrigerated transport units crossed the border at Peña Blanca, with an average wait time per unit of 4.2 hours.

¹⁹ Such an analysis covers tax evasion, health, police, immigration and commercial risks. In each case it identifies the context, prioritizes actions and implements parallel measures to monitor and measure compliance with the prevention methods identified for each risk.

²⁰ Controls are of limited efficiency and effectiveness because of infrastructure problems, unintegrated controls, limited risk management capacity, obsolete and inadequate equipment, and a weak Single Window for Foreign Trade (VUCE, [OEL #41](#)): the latter is being strengthened (see footnote 22), but it is still inadequate.

²¹ In Nicaragua 70% of imports and exports are nationalized at the border. The International Goods Transit System (TIM) has been instituted at the main border crossing points, with Bank support. The institutional capacity (technical and equipment aspects) is acceptable, but the inadequate infrastructure neutralizes the benefits of the TIM. Strengthening that infrastructure and allowing advance online procedures would encourage more intensive use of the transit regime, and would do much to relieve the traffic bottleneck at border crossings.

- to the flow of goods and people.²² To this end, adequate training will have to be provided to officials and to the private sector to ensure proper coordination of facilitation and control functions, which would greatly improve performance at the border crossings.
- 1.8 The shifting nature of the border crossing environment, together with the demand expected to be generated by the growth in international trade, require a structured and robust method for streamlining and coordinating interventions and synchronizing the strategies of agencies with varying responsibilities and institutional priorities. Based on international best practices for border management, the Nicaraguan strategy seeks to implement a new paradigm of border management that can be adapted to sweeping plans for trade integration, including the formation of customs unions. In this context, the Border Integration Model (BIM), which the Bank helped to design under the Mesoamerica Project constitutes the basis for addressing the problem identified in Nicaragua. It is modeled on the SAFE Framework of Standards²³ of the World Customs Organization and is based on measures to handle trade facilitation and border control in a coordinated manner among the control agencies in order to reduce the time and cost of transit and ensure efficient and effective control of persons and merchandise.²⁴ 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. It would be implemented in two dimensions, one involving internal coordination and the other requiring collaboration with neighboring countries.²⁵
- 1.9 Nicaragua has begun a process of bilateral coordination with its neighbors. With Costa Rica it signed a memorandum of understanding on 13 March 2015 establishing the operational model for the border crossings of Peña Blanca-Peñas Blancas and San Pancho-Las Tablillas. In addition, it defined the process of coordination that will be launched for the design, execution, and functioning of the operations to modernize and develop infrastructure at border crossings, as well as the operational rules for the provisional crossing that will be opened in May 2015 at

²² The modernization of border crossing management would bring greater efficiency to control processes, thus facilitating trade. Currently the Single Window for Foreign Trade of Nicaragua (VUCEN) is being strengthened with nonreimbursable Bank funding (NI-T1149), which has introduced a first set of modules for interconnecting control agencies, modernized equipment, and provided training for the private sector. It is now in the course of final evaluation. This program will give continuity to the efforts to strengthen the VUCEN, and its design has been coordinated with the relevant institutions and stakeholders.

²³ 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.

²⁴ Implementation of the BIM will help Nicaragua in fulfilling its commitments in the context of the Trade Facilitation Agreement of the World Trade Organization.

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

San Pancho-Las Tablillas. With Honduras, the coordination process is under way and is expected to be duly installed in the course of this year.

- 1.10 **Institutional organization of the sector.** The Ministry of Finance (MHCP) is responsible for approving budgets to ensure that State institutions can provide their services in accordance with public policy priorities. The following institutions, among others, also exercise specific controls at border crossings: the Customs Services Bureau (DGA), Ministry of Development, Industry, and Trade (MIFIC), the National Police, the Agricultural Health and Protection Institute (IPSA), the Immigration and Alien Registration Bureau (DGME), the Ministry of the Interior (MIGOB), and the Ministry of Health (MINSa).
- 1.11 **Bank experience with the sector and the Border Integration Model.** Through its Transport Division (INE/TSP) and its Integration and Trade Sector (INT/INT), the Bank has worked in coordination to design and execute border crossing operations in Costa Rica, Ecuador, and Guatemala,²⁶ and has used nonreimbursable funding to conduct studies on the physical and operational aspects of border crossings in the region based on the BIM,²⁷ involving interventions in the corridors of regional logistic priority and identifying the main problems in border crossing capacity and infrastructure. In 2012 the International Monetary Fund produced a diagnostic study of customs administration in Nicaragua.²⁸ INE/TSP and the Trade and Investment Unit (INT/TIU) conducted analyses²⁹ on the physical and operational aspects of border crossings in the Pacific Corridor. These were taken into account in identifying and diagnosing the problem.

²⁶ The Border Integration Program (CR-L1066), which is being developed simultaneously with this operation, seeks to improve the coordination and interface of adjacent border crossing points (Peñas Blancas-Peña Blanca and Las Tablillas-San Pancho); Improvement of Border Crossings in Ecuador (EC-L1116), and the Guatemala-Mexico border integration program now in preparation (GU-L1086). See Annex IV of Sector Knowledge for the respective operations: IDBDOCS 37416727 (CR), 38756968 (EC), and 39599981 (GU).

²⁷ With respect to regional efforts to manage international transit, progress has been made on implementing the TIM from Mexico to Panama. Regarding Authorized Economic Operators (AEOs), the countries of Central America and the Caribbean approved the regional strategy to develop and harmonize their programs, but regulatory changes to the Central American Uniform Customs Code are still needed. Support is also being provided for interconnecting Single Windows for Foreign Trade.

²⁸ The study recommended consolidating the customs administration, strengthening regulations and internal processes, facilitating trade, and improving ex post auditing. See *Nicaragua Fortalecimiento Institucional Administraciones Tributaria y Aduanera* [Nicaragua, Strengthening tax and customs administrations] IMF, October 2011.

²⁹ Optimization of border crossings in the Pacific Corridor (RG-T1662), Support for improving border crossings (RG-T2267), and Restoration, maintenance, and operation of Pacific Corridor roads (RG-T1744). Similar operations were also approved in Ecuador (EC-L1116). Three main lessons emerge from experience with these operations and those mentioned in footnote 26: (i) binational coordination is essential and must be promoted and documented; (ii) interagency coordination at the local level is very weak, and an effective and efficient governance model needs to be agreed on; and (iii) there are high risks of dispersal, asymmetry and lack of alignment in national interventions, so a regional strategy harmonizing these processes is needed. All of these lessons have been incorporated into this program.

- 1.12 In light of the challenges that border operations pose for trade and the movement of people and goods in Central America, the Bank has been working on the design and implementation of the BIM, which constitutes a comprehensive border reform model tailored to the region. The BIM includes the following parameters: (i) adoption of international border management standards; (ii) establishment of an interoperable advance information system, based on the Single Window for Foreign Trade (VUCE) model and on information sharing systems for combating fraud; (iii) introduction of risk analysis and management; (iv) public certification of Authorized Economic Operators (AEO); (v) efficient quarantine controls under internationally recognized and harmonized rules; (vi) instituting joint 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.³⁰ The BIM complements other programs sponsored by the Bank that seek to improve the region's logistics performance, such as the Pacific Corridor Acceleration Program of the Mesoamerica Project³¹ and modernization of the International Network of Mesoamerican Highways (RICAM).
- 1.13 **Alignment with regional initiatives.** This operation is aligned with the regional initiatives that Central American and Mesoamerican countries have undertaken since 2014 with Bank support. At the request of the Heads of State and Government in their June 2014 Declaration of Punta Cana, a Regional Strategy for Trade Facilitation and Competitiveness was developed with emphasis on coordinated border management. Within that framework, countries have identified short-,³² medium- and long-term³³ measures to facilitate trade, particularly at border crossings. Subsequently, in the December 2014 Declaration of Placencia, instructions were issued to move forward with the formation of the Central American Customs Union. The BIM constitutes a framework for regional action aligned with these initiatives, to promote trade facilitation measures that will contribute to the economic integration process in Central America. All these measures will be made compatible with the processes for integrated controls management proposed in the program, as coordination with regional initiatives will be handled through the MIFIC and the DGA.

³⁰ See the experience of the Laredo, United States border crossing in footnote 14.

³¹ The Mesoamerican Integration and Development Project, better known as the Mesoamerica Project, is a mechanism developed by the Mesoamerican countries to facilitate the design, funding, and execution of regional integration projects in the areas of infrastructure, connectivity, and social development.

³² The short-term measures, implementation of which is being supported by the Bank with nonreimbursable funding, include advance electronic transmittal of customs documents, electronic sanitary certificates, use of radiofrequency devices for vehicle control, immigration facilities for truck drivers, and security camera systems.

³³ These measures include regional risk management, interconnection of the VUCEs, further development of the TIM, implementation of the AEOs, agreements on mutual recognition of AEOs, and the design of a digital platform for Central American trade.

- 1.14 **Strategic alignment.** This operation is consistent with the current country strategy with Nicaragua (document GN-2683, 2012-2017) and will contribute to the strategic objective of strengthening transportation infrastructure so as to ensure that the productive sectors have access at all times to domestic and export markets, with particular emphasis on the Mesoamerican region. The program will contribute to the priorities of the Ninth General Increase in the Resources of the Bank (GCI-9) (document AB-2764) as they relate to: (i) lending to small and vulnerable countries; and (ii) lending to support regional cooperation and integration. It will also contribute to achieving the regional targets on: (a) trade openness, (b) fostering the development of intraregional trade and the development of the following Bank outputs: (1) number of public trade officials and private entrepreneurs trained in trade and investment; and (2) regional and subregional integration agreements and cooperation initiatives supported; and (3) cross-border and transnational projects supported, as defined in the Results Framework (see Annex II). The operation is also consistent with the national subsidiarity and additionality criteria supported by the Bank (document GN-2733), as it serves an objective with cross-border scope: boosting Nicaragua's competitiveness in regional trade. The operation is also aligned with the Mesoamerica Project, as it promotes development of the Mesoamerican region and the improvement of its competitiveness and, with the framework agreement, it promotes the Central American Customs Union.
- 1.15 The operation is also aligned with the Sector Strategy to Support Competitive Global and Regional Integration and the Sector Strategy for Sustainable Infrastructure for Competitiveness and Inclusive Growth, as well as with the sector frameworks of INE/TSP and INT/TIU, as the program not only focuses on the infrastructure area but also links the reform of regulatory frameworks, institutional strengthening and technical capacity-building for border agencies, and the improvement of controls.

B. Objectives, components, and costs

- 1.16 The objective of the program is to boost Nicaragua's foreign trade competitiveness by modernizing the infrastructure, equipment and border systems at the three border crossings of Peña Blanca, San Pancho and El Guasaule, in order to guarantee efficient, effective coordination of controls by the responsible institutions. The specific objectives are to: (i) implement a physical and regulatory system of effective control processes and tools; and (ii) endow the three border crossings with the infrastructure and equipment needed to effectively implement the processes and tools for controlling freight and people.
- 1.17 The program is structured in two specific components: the first is aimed at strengthening and coordinating the fiscal and parafiscal control processes of the responsible institutions, while the second is geared to improving border infrastructure and facilities.
- 1.18 **Component I. Effective, efficient border control processes (US\$4.75 million).** This component is designed to improve Nicaragua's fiscal, parafiscal and security

controls by financing: (i) a system of integrated controls for freight and passengers at the three border crossings, including integrated risk management that will support the objectives of control, security and facilitation,³⁴ the second phase of the Nicaragua's Single Window for Foreign Trade (VUCEN 2.0)³⁵ and implementation of a regulatory framework for control³⁶ based on the SAFE Framework of Standards; (ii) activities to support implementation of a basic program of "trusted operators";³⁷ and (iii) training for business people and public officials in modernized border control processes.

- 1.19 **Component II. Investments in infrastructure and equipment (US\$46 million).** This component will finance construction and equipment of the necessary facilities at the three border crossings, in accordance with the BIM guidelines, including: (i) the proposed physical and functional configuration of each border crossing, and 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 (drinking water, power, telecommunications, etc.); (v) installation of nonintrusive control devices and of management stations;³⁸ (vi) technical and environmental supervision of works; and (vii) social and environmental management measures (mitigation plans, compensation for economic displacement, reintegration programs for informal workers, among other measures).
- 1.20 The BIM proposal presupposes strict enforcement, through intensive use of technology, of migration controls for passengers and drivers as well as phytosanitary, zoosanitary and consumer safety or other specific controls, as established in the international protocols, standards and conventions in each particular area. As well, the proposal guarantees, through the management control system, that users may exit the border station premises only after the specific inspections have been conducted and they have been cleared to continue their journey.
- 1.21 **Program management and administration (US\$6.95 million).** This category will finance: (i) the program's social and environmental management, including environmental and social studies as well as consultation and dissemination activities; (ii) execution and management support; (iii) external financial audits; (iv) monitoring and evaluation activities; and (v) the financing costs of the loan.

³⁴ See footnote 19.

³⁵ Advanced modules for interconnection, security, infrastructure, regulatory framework, equipment, dissemination, and training.

³⁶ The Unified Central American Customs Code (CAUCA) and its Regulations (RECAUCA) and other regulatory provisions governing fiscal, parafiscal, and immigration control.

³⁷ Includes certification of firms as "trusted operators," support for firms seeking certification, dissemination, and training.

³⁸ Devices that automatically capture specific vehicle data and transmit them to management control systems.

- 1.22 **Cost and financing.** The estimated cost of the program will be US\$57.7 million equivalent, of which: (i) US\$55 million will be provided through the Bank loan, with US\$33 million from the Bank's Ordinary Capital and US\$22 million from the Fund for Special Operations; and (ii) US\$2.7 million will be contributed by the borrower as the local counterpart contribution. In addition, the European Union has declared an interest in supporting this program. Should that potential support take shape, the Bank and Nicaragua will examine options for materializing it. Below is the estimated cost of the program, broken down by investment category and source of financing:

Table I.1: Cost and financing (in US\$ millions)

Components and costs	IDB	Local *	Total	%
Component 1. Efficient, effective border control processes	4.75		4.75	8.2
Component 2. Investments in infrastructure and equipment	46.0		46.0	79.8
Program management and administration	1.75		1.75	3.1
Financing costs**	1.5		1.5	1.6
Contingencies	1.0	2.7	3.7	6.4
Total	55.0	2.7	57.7	100

* Available starting in the second year of the disbursement period for contingencies.

** Interest may be financed using loan proceeds.

- 1.23 **Program beneficiaries.** Freight transport users, other players in the logistics chain, and individuals who use border crossings will benefit most from the program's activities, which will facilitate greater reliability and predictability of waiting times for services, inspections, and border control formalities, as well as time- and cost-related improvements for users.³⁹

C. Key indicators in the results framework

- 1.24 Use of the information collected during program execution will be optimized through the use of outcome and output indicators and the proposed means of verification. Outputs and milestones will be verified directly from the supervision reports, while the outcome indicators will be measured directly or indirectly to determine: (i) the improvement in border crossing efficiency measured in terms of capacity, time, cost, and reduction of the carbon footprint at border crossings; (ii) the improvement in customs management efficiency measured in terms of electronic declarations, percentage of physical inspections, and average clearance times through the red channel; (iii) number of business people or public officials benefiting from technical assistance and trained in trade and investment issues; and

³⁹ In 2014, Peña Blanca handled 1,279,690 passengers and 221,117 transport units, and El Guasaule, 834,025 passengers and 223,562 units. Import and export times will be cut by 69% and 67%, respectively, at Peña Blanca, and by 37% and 70% at El Guasaule. At El Guasaule, the reduction in passenger clearance times will average 84%, and 73% at Peña Blanca.

- (iv) improvement in perceived service quality, which will be a composite indicator based on user satisfaction surveys ([REL #3](#)).
- 1.25 **Technical and economic evaluation.** For the economic evaluation of the program ([OEL #30](#), [OEL #32](#), [OEL #34](#)), a cost-benefit analysis was conducted following a methodology that compared total economic costs (costs for users and for the State) both with and without the program, considering a 20-year analysis period that included the investment execution period and infrastructure service life. The evaluation considered as benefits the variation in user costs attributable to the time savings that would be generated as a result of the program's interventions, and the variation in the State's costs attributable to the construction and operation of the facilities (investments, maintenance, and operating costs).
- 1.26 Considering the net flow of economic costs for 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 (B/C) 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) under the assumption of a given probability distribution and within specific ranges of variation of the program's cost and benefit variables. The results of this simulation revealed a high probability (99.5%) that the EIRRs would exceed 29.4% at Peña Blanca, 37.2% at El Guasaule, and 14.2% at San Pancho. There is a similar probability that the NPVs will exceed US\$49.3 million, US\$25 million, and US\$2.4 million, respectively.

Table I.2. Benefit-cost analysis

Border crossing	Scenario	Return indicators			
		NPV (US\$ millions)	EIRR (%)	B/C	NPV/Investment ratio
Peña Blanca	Base case	58.2	35.1	3.16	2.22
	Simulation	49.3	29.4	2.56	1.61
El Guasaule	Base case	48.2	56.4	4.55	3.44
	Simulation	25	37.2	2.60	1.79
San Pancho	Base case	4.7	16.5	1.33	0.37
	Simulation	2.4	14.2	1.16	0.18

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 The program is structured as a specific investment loan, with a disbursement period of five years, drawn from the following sources of financing: (i) US\$55 million from the Bank loan, including US\$33 million from the Single Currency Facility of the Ordinary Capital and US\$22 million from the Fund for Special Operations; and

(ii) US\$2.7 million as the local contribution. The indicative disbursement schedule is presented in Table II.1:

Table II.1. Disbursement schedule (US\$ millions)

Source	2016	2017	2018	2019	2020	Total
IDB	5.5	16.5	19.4	10.6	3.0	55
Local	0	0	0	1	1.7	2.7
Total	5.5	16.5	19.4	11.6	4.7	57.7

B. Environmental and social risks

- 2.2 In addition to the benefits generated in the areas of immigration, customs, and animal and plant safety control, the program will produce positive impacts in terms of improved traffic circulation, the passage of goods, and the movement of persons.
- 2.3 Consistent with policy OP-703, this was classified as a category “B” operation. The adverse environmental impacts of the program are expected to be low, and to occur primarily during the construction phase or the upgrading of existing infrastructure. The impacts will be those that arise in the execution of any minor civil works, and they can be managed through standard procedures.⁴⁰ The main adverse social impact that might be generated is the involuntary displacement of some 800 persons⁴¹ (vendors, moneychangers, stevedores etc.) who currently carry out their activities within the sterile zones of the crossings. The Environmental and Social Management Report contains further details on the environmental and social management measures to be taken, including a preliminary assessment of possible economic displacements that the program might produce.
- 2.4 **Gender considerations of the operation.** In accordance with Operational Policy OP-761 on Gender Equality in Development, this operation will include the following actions: (i) the training activities envisaged in the operation will promote equal opportunities for the participation of men and women; (ii) if necessary, the public consultation process will include different events to ensure the participation of men and women; (iii) in cases of economic displacement, the Involuntary Resettlement Plans, if needed, will contribute to the economic empowerment of women by allowing any new dwellings to be titled to female heads of household, or jointly to women and their partners; and (iv) any obstacles to the equitable participation of women and men will be eliminated from the bidding documents.

⁴⁰ These impacts may include: (i) dust, (ii) noise, (iii) vibrations, (iv) soil compacting, (v) grease and oil spills, (vi) solid and liquid waste, (vii) soil contamination from waste, and (viii) interruptions in international vehicle traffic between Nicaragua and Costa Rica.

⁴¹ 700 at Peña Blanca and 100 at El Guasaule.

C. Fiduciary and execution risks

- 2.5 Lessons learned in execution of operations with the executing agency.** According to the findings of the Institutional Fiduciary Capacity Analysis conducted in the General Coordination Office for Programs and Projects (CGPP), when it comes to fiduciary management (and although there is prior experience in the execution of projects financed by various donors and by the Bank in particular),⁴² technical and fiduciary capacities need to be built by adding the personnel described in the contractual conditions (paragraph 3.5).
- 2.6** The Bank and the principal government agencies involved in the program have identified the following risks: (i) lack of capacity for technical execution of the program, which will be mitigated by hiring technical staff in the CGPP using program resources; (ii) delays in binational coordination with Costa Rica and Honduras, for which the Strategic Steering Committee (CDE) will provide systematic monitoring and will work toward the signature of binational collaboration agreements that include coordinated implementation plans;⁴³ (iii) interagency coordination weaknesses, which will be mitigated in the program Operating Regulations with the establishment of the program's multisector CDE, coordinated by the DGA; (iv) delays in preparation and execution of the Environmental and Social Management Plan, in which case program resources of up to US\$100,000 may be used (paragraph 3.9) through the reimbursement of funds; and (v) delays in execution of the Integrated Risk System, for which the CDE will prepare and coordinate implementation of a system operating manual. The CGPP will be provided with supervisory tools for monitoring execution.
- 2.7** In order to analyze possible cost variations in the budget for the works, the probability of additional costs was estimated using a Monte Carlo simulation.⁴⁴

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 Borrower and executing agency.** The borrower will be the Republic of Nicaragua. The executing agency will be the Ministry of Finance (MHCP), through the

⁴² Operations: 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; ATN/EX-14260-NI.

⁴³ Priority will be given to the mitigation actions in Costa Rica, as this will be the first crossing to be built under the program.

⁴⁴ Experience with infrastructure projects shows that establishing expenditure budgets on the basis of preliminary designs can be risky, as the final designs may generate cost overruns. Hence the importance of estimating probable cost overruns and adopting suitable budgetary measures (for example, a contingency item of 6.1% in this case). The analysis includes an estimate of possible price escalation and additional costs for modifications or unforeseen situations involving the works under Component II. The results indicate a 95% probability that the costs of the works will fall within the budgeted amount, including the provision for contingencies. The program budget includes these values ([OEL #35](#)).

- General Coordination Office for Programs and Projects (CGPP). The CGPP will be strengthened with technical personnel for the execution of Bank resources. It will be responsible for all technical, administrative, and fiduciary aspects of the program, and will also have the technical and strategic support of appropriate government institutions for implementation.
- 3.2 To strengthen institutional coordination, the Strategic Steering Committee (CDE) will be established, coordinated by the MHCP and comprising, among others, the DGA, MIFIC, MIGOB, MINSA, IPSA and the National Police. The strategic functions of the CDE will be defined in the Operating Regulations.⁴⁵
- 3.3 The CGPP, with support from the main institutions involved in program execution, will have the following responsibilities, among others, for implementing the program: (i) comply with the program Operating Regulations; (ii) prepare terms of reference, bidding documents, evaluation reports and other procurement-related documentation; (iii) prepare the reports called for in the Monitoring and Evaluation Plan ([OEL# 41](#)); (iv) monitor the program; (v) conduct financial supervision and contract the program auditors; and (vi) process and obtain the environmental authorizations for tendering and execution of works.
- 3.4 **Program Operating Regulations.** The Operating Regulations are the operational instrument describing the criteria and procedures for implementing the program. It includes procedures for procurement and contracting and an environmental and social management framework with guidelines for environmental management. It will also establish the framework for interagency coordination, the responsibilities of each of the main participating institutions, and the flowcharts for the principal processes involved. The Environmental and Social Management Report and the Involuntary Resettlement Plans will form part of the document. The Operating Regulations, and any amendments thereto, will require the Bank's no objection for entry into force.
- 3.5 **Special contractual conditions precedent to the first disbursement to be fulfilled, to the Bank's satisfaction, by the borrower: (i) obtain the Bank's no objection to hiring the following consultants to build the institutional capacity of the General Coordination Office for Programs and Projects (CGPP) of the Ministry of Finance (MHCP), in accordance with terms of reference agreed on with the Bank: (1) a procurement specialist, (2) an accountant, (3) a specialist in preparing terms of reference and technical specifications, (4) a legal adviser, (5) a project technical coordinator, and (6) a strategic planning specialist; (ii) present evidence that the Strategic Steering Committee has been formally constituted; (iii) present the program Operating Regulations, establishing among other things the responsibilities of each agency involved in program implementation, and present the aide-mémoire on**

⁴⁵ They would include, among other things, validation of the strategic plan and the work schedules, validation of the specifications and design of works and systems, overall monitoring of the works, and review of the product acceptance and processes.

- preparation and approval of the Operating Regulations, signed by the main institutions involved in the program, namely the MHCP, the Ministry of Development, Industry, and Trade, the Ministry of the Interior, the Ministry of Health, the Customs Services Bureau, the Agricultural Health and Protection Institute, and the National Police; and (iv) presentation by the CGPP of evidence that a mechanism that includes contractors and supervisors has been adopted for receiving and resolving complaints and claims related to social and environmental aspects of the program.
- 3.6 **Special conditions for execution.** Prior to the launch of works at each of the three border crossings under Component II, the borrower will present evidence to the Bank's satisfaction that it has complied with the following conditions: (i) Nicaragua has signed a memorandum of understanding with the neighboring country concerned (Costa Rica or Honduras) for coordinated implementation of the program; (ii) the environmental license from the Ministry of Environment and Natural Resources has been obtained, together with the authorizations that Nicaragua's environmental legislation requires; (iii) execution of at least 50% of the physical works called for in the corresponding Involuntary Resettlement Plan, as appropriate; and (iv) at least one public consultation has been held as stipulated in the Bank's environmental and social policies.
- 3.7 **Procurement.** The procurement of goods, works, and nonconsulting services will be performed in accordance with the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9). For consulting services, the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) of March 2011 will apply. Supervision of procurement will be performed in accordance with the Procurement Plan.
- 3.8 **Disbursements and execution time.** Program funds will be disbursed over a period of 60 months from the date of validity of the loan contract. The Bank will make disbursements as described in Annex III.
- 3.9 **Retroactive financing.** The Bank may provide financing retroactively, with funds from the loan, up to the equivalent of US\$100,000 (0.17% of the proposed loan amount) for eligible expenditures made by the borrower before the date of loan approval to contract consultants to build the CGPP's institutional capacity, provided that requirements substantially similar to those established in the loan contract have been met. Those expenditures must have been made after 9 March 2015 (date of approval of the Project Profile), but in no case will they include expenditures made more than 18 months prior to the date of loan approval.
- 3.10 The financial statements and the eligibility of expenditures under the program will be audited each year by an independent audit firm acceptable to the Bank, to be contracted by the CGPP. The audit services will be financed with loan proceeds in accordance with procedures and terms of reference agreed on with the Bank. The audited annual and final financial statements will be sent to the Bank no later than

four months after the close of each fiscal year, and after the date of the last disbursement.

B. Summary of monitoring and evaluation arrangements

- 3.11 Monitoring and evaluation of the program will take into account the targets and progress indicators defined jointly with the MHCP, which have been incorporated into the Results Matrix. The Bank will monitor the program through inspection visits and administration missions.
- 3.12 Monitoring and evaluation of the program 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 program execution. The following instruments will be used to monitor and evaluate the program: (1) the annual work plan, program execution plan, and procurement plan; (2) semiannual program monitoring reports;⁴⁶ (3) audited financial statements; (4) midterm evaluation; and (5) the project completion report, including an ex post evaluation based on the previously developed model ([REL #3](#)).

⁴⁶ The Monitoring and Evaluation Plan (REL#3) establishes the provisions on infrastructure and equipment maintenance and on the reports thereon.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program	-Lending to small and vulnerable countries -Lending to support regional cooperation and integration			
Regional Development Goals	-Trade openness (trade as percent of GDP) -Intraregional trade in LAC as percent of total merchandise trade			
Bank Output Contribution (as defined in Results Framework of IDB-9)	-Number of public trade officials and private entrepreneurs trained in trade and investment -Regional and sub-regional integration agreements and cooperation initiatives supported -Number of cross border and transnational projects supported (infrastructure and customs, etc.)			
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix				
Country Program Results Matrix	GN-2805	The intervention is included in the 2015 Operational Program.		
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Evaluable	Weight	Maximum Score
		8.9		10
3. Evidence-based Assessment & Solution		8.1	33.33%	10
3.1 Program Diagnosis		3.0		
3.2 Proposed Interventions or Solutions		2.4		
3.3 Results Matrix Quality		2.7		
4. Ex ante Economic Analysis		10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0		
4.2 Identified and Quantified Benefits		1.5		
4.3 Identified and Quantified Costs		1.5		
4.4 Reasonable Assumptions		1.5		
4.5 Sensitivity Analysis		1.5		
5. Monitoring and Evaluation		8.6	33.33%	10
5.1 Monitoring Mechanisms		1.5		
5.2 Evaluation Plan		7.1		
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Medium		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		B		
IV. IDB's Role - Additionality				
The project relies on the use of country systems				
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, 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	The operation will guarantee that 50% of employees trained in new systems, management procedures, and border control, 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 Integration and Trade Sector (INT) and the Transport Division (TSP) have been supporting activities related to the Single Window for Foreign Trade of Nicaragua, supporting the Customs Direction, studies about management, control processes, infrastructure and investment for the three border crossing (Peña Blanca, El Guasaule and San Pancho). Other related operations are: RG-T1982, RG-T2053, RG-T1660, RG-T1662, RG-T2267, y 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	An evaluation methodology of differences- in-differences combined with instrumental variables is proposed. So far, there are no rigorous studies that reveal how the creation of a new border crossing and implementation of a system of coordinated border management affects imports and exports of firms. Additionally, it is still unknown to what extent these effects may lead to changes in other performance dimensions of firms, such as the level of employment and total sales. The proposed analysis will contribute to close both knowledge gaps.		

The program aims to strengthen the competitiveness of foreign trade in Nicaragua by modernizing the infrastructure, equipment and systems at border crossings, seeking to ensure the efficient and effective coordination of controls by responsible institutions. For this, the operation proposes to: (i) implement a system of physical and regulatory processes and tools for effective control; and (ii) provide border crossings with adequate infrastructure and equipment for the control of cargo and people.

Regarding the intervention logic, the document presents sound empirical evidence about the problem and its main causes; however, no evidence is presented on the effectiveness of such interventions on the basis of impact evaluation studies in other regions. The results matrix is quite solid, however it could be strengthened by reviewing some of the indicators reported to ensure that they are SMART and consistent among all border crossings.

The economic analysis of the operation is solid. However, the monitoring plan needs to ensure that the quantification of output costs is consistent with outputs reported in the results matrix. The evaluation plan is based on an ex-post cost-benefit analysis, a before-and-after method, and a quasi-experimental method that uses a differences-in-differences analysis. We highlight the novel collection of surveys to measure user satisfaction and the implementation of rigorous impact evaluation methods to quantify the impacts of the operation on firms.

Risks identified are reasonable and include mitigation measures and metrics for monitoring.

RESULTS MATRIX

General objective	The general objective of the program is to boost Nicaragua's foreign trade competitiveness, making fiscal and parafiscal controls over freight and persons more effective and efficient at three border crossings: Peña Blanca, El Guasaule, and San Pancho.
--------------------------	--

IMPACTS

Indicators/unit of measurement/process	Baseline 2015	Final target 2020	Source/means of verification	Comments
Impact: Improved competitiveness and integration				
Global Competitiveness Index ¹	3.8 (99/144)	4.1	World Economic Forum (WEF)	The Index monitors, on a scale of 1 to 7, the competitiveness and productivity ranking and trends of 148 countries.
Customs procedures efficiency index	3.1 (130/144)	4.2	Global Competitiveness Report	Evaluates, on a scale of 1 to 7, the qualitative efficiency of customs procedures for the entry and exit of goods. The index of efficiency of customs processes is one of the 16 indicators covered by the Goods Market Efficiency pillar.

RESULTS

Indicators/unit of measurement	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	0	50%	VUCEN statistics	This advanced declaration is prepared by the DGA and sent electronically to VUCEN. This process can be performed at the time the transport unit leaves the outgoing customs station in the country of origin.
	Export ²				
Percentage of technical notes transmitted via the VUCEN platform (%)	Export	0	100%	VUCEN statistics	VUCEN is the official agency that administers the foreign trade technical notes system of Nicaragua.
	Import	0	100%		

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

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.

Percentage of intrusive and nonintrusive physical inspections applied to “red channel” declarations (%)		Imports PB ³	Red	19.2%	8%	Customs Procedures Directorate of the DGA with information from the SIDUNEA World database	This is important for effective control and collection; the risk analysis assigns declarations for documentary inspection (Yellow), physical inspection (Red), or “no inspection”.
			Yellow	0%	6%		
		Exports PB	Red	11%	4%		
		Imports EG ⁴	Red	33%	8%		
			Yellow	0.0%	6%		
		Exports EG	Red	5.7%	4%		
		Imports SP ⁵	Red	N/A	4%		
			Yellow	N/A	3%		
		Exports SP	Red	N/A	2%		
Average clearance time for the “red channel” (hours)		PB	Import	1.7	0.6	Consultant’s report on the final results evaluation of the program using information from the SIDUNEA World database	Represents the average time for appraisal or physical inspection of incoming goods for purposes of control and collection.
		EG		5.1	2.5		
		SP		N/A	0.6		
Nicaragua exports to Costa Rica (Tons/year)		Export		256,791	317,266	SIECA trade information	These indicators reflect the program’s alignment with the growth in Nicaragua’s trade with regional partners, thanks to the increase in exports at the three border crossings.
Nicaragua exports to Panama (Tons/year)		Export		26,580	33,923		
Expected outcome 2. Improved perception of service quality							
Index of user satisfaction with the border crossings (%)		Carriers	PB	43%	75%	Consultant’s report; satisfaction survey	The overall satisfaction index will be the weighted average of the following critical characteristics of service: Access roads, infrastructure, technology and equipment, service quality, socioeconomic and environmental aspects, costs, security, and general evaluation.
			EG	22%	70%		
		Tourists	PB	59%	80%		
			EG	36%	70%		

³ PB - Peña Blanca.

⁴ EG - El Guasale.

⁵ SP - San Pancho.

Expected outcome 3. Improved efficiency at border crossings						
San Pancho border crossing ⁶						
Maximum freight processing capacity at the border station (TU/day)	Import	N/A	229	Means of verification ⁷ Consultant's report on the final evaluation of outcomes from the program, using information from the SIDUNEA World database	Measures the theoretical maximum capacity for processing at the border station. It is quantified through a simulation that saturates the system but not to the point of collapse.	
	Export	N/A	107			
Total cost of the quarantine control process (US\$/procedure)	Import	N/A	<i>In preparation</i>		These indicators reflect the total costs incurred by those directly involved in the process (users and borrowers). The indicator is calculated as the average total cost per procedure in terms of personnel, logistics operators, stationery, permits and authorizations, and fuel.	
	Export	N/A	<i>In preparation</i>			
Total cost of the nonquarantine control process (US\$/procedure)	Import	N/A	<i>In preparation</i>		This is the total payroll cost to the State for the officials involved in the process, according to actual average working times.	
	Export	N/A	<i>In preparation</i>			
Average total border crossing time (hours/TU)	Import	N/A	1.60			
	Export	N/A	1.31			
	Units entering	N/A	0.95			
	Units exiting	N/A	0.93			
	Empty units entering	N/A	0.92			
	Empty units exiting	N/A	0.79			
Average queuing time before the freight control process begins (minutes/TU)	Export	N/A	1.37			This is the average waiting time in one day from the moment the unit enters the queue until it is inspected at the first control station.
Average transit time for passengers (minutes/passenger)	Direction NI-CR	N/A	9.40			These indicators measure the average total time for completing immigration formalities for tourists crossing the border on foot in either direction.
	Direction CR-NI	N/A	9.68			

⁶ A similar set of indicators is proposed for the other border crossings to be financed by the program.

⁷ The baseline data and targets are from the report prepared by the consulting firm hired to develop the baseline and simulate the conditions “with” the project at each of the border crossings.

Peña Blanca border crossing					
Indicators/ unit of measurement	Process	Baseline 2015	Final target 2020	Source/means of verification	Comments
Maximum freight processing capacity at the border station (TU/day) ⁸	Import	123	289	Means of verification ⁹ Consultant's report on the final evaluation of outcomes from the program, using information from the SIDUNEA World database	Measures the theoretical maximum capacity for processing at the border station. It is quantified through a simulation that saturates the system but not to the point of collapse.
	Export	62	145		
Total cost of the quarantine control process (US\$/procedure) ¹⁰	Import	<i>In preparation</i>	<i>In preparation</i>		These indicators reflect the total costs incurred by those directly involved in the process (users and borrowers). The indicator is calculated as the average total cost per procedure in terms of personnel, logistics operators, stationery, permits and authorizations, and fuel. This is the total payroll cost to the State for the officials involved in the process, according to actual average working times.
	Export	<i>In preparation</i>	<i>In preparation</i>		
Total cost of the nonquarantine control process (US\$/procedure)	Import	<i>In preparation</i>	<i>In preparation</i>		
	Export	<i>In preparation</i>	<i>In preparation</i>		
Average total border crossing time (hours/TU)	Import	3.1	2.0		This is the average time taken to clear a unit through the border station, including all controls and waiting lines. The indicator covers the time from the moment the unit enters the first inspection line until it receives customs permission to leave the primary zone and continue to destination. It does not cover the nighttime window of six hours (12:00 to 6:00 a.m.), when the border post is not open.
	Export	9.5	2.8		
	Units entering	1.2	1.0		
	Units exiting	1.3	1.5		
	Empty units entering	1.4	1.0		
	Empty units exiting	1.3	1.0		
Average queuing time before the freight control process begins (minutes/TU)	Export	26.5	0.4		This is the average waiting time in one day from the moment the unit enters the queue until it is inspected at the first control station.
Average transit time for passengers (minutes/passenger)	Direction NI-CR	26.5	12.2		These indicators measure the average total time for completing immigration formalities for tourists crossing the border on foot in either direction.
	Direction CR-NI	47.6	11.0		

⁸ TU corresponds to a motorized unit of freight transport.

⁹ The baseline data and targets are from the report prepared by the consulting firm hired to develop the baseline and simulate the conditions “with” the project at each of the border crossings.

¹⁰ Quarantine control is defined as control over the movement of products for which regulation requires observation, inspection or testing and/or additional treatment, in order to avoid the introduction or spread of plant and animal pests.

El Guasaule border crossing ¹¹						
Maximum freight processing capacity at the border station (TU/day)	Import	175	168	Means of verification ¹² Consultant's report on the final evaluation of outcomes from the program, using information from the SIDUNEA World database	Measures the theoretical maximum capacity for processing at the border station. It is quantified through a simulation that saturates the system but not to the point of collapse.	
	Export	71	68			
Total cost of the quarantine control process (US\$/procedure)	Import	<i>In preparation</i>	<i>In preparation</i>		These indicators reflect the total costs incurred by those directly involved in the process (users and borrowers). The indicator is calculated as the average total cost per procedure in terms of personnel, logistics operators, stationery, permits and authorizations, and fuel.	
	Export	<i>In preparation</i>	<i>In preparation</i>			
Total cost of the nonquarantine control process (US\$/procedure)	Import	<i>In preparation</i>	<i>In preparation</i>		This is the total payroll cost to the State for the officials involved in the process, according to actual average working times.	
	Export	<i>In preparation</i>	<i>In preparation</i>			
Average total border crossing time (hours/TU)	Import	7.63	2.35		This is the average time taken to clear a truck through the border station, including all controls and waiting lines. The indicator covers the time from the moment the truck enters the first inspection line until it receives customs permission to leave the primary zone and continue to destination. It does not cover the nighttime window of six hours (12:00 to 6:00 a.m.), when the border post is not open.	
	Export	4.19	1.38			
	Units entering	1.35	1.21			
	Units exiting	0.15	1.21			
	Empty units entering	1.96	1.22			
	Empty units exiting	0.15	1.21			
Average queuing time before the freight control process begins (minutes/TU)	Import	15.7	2.5		This is the average waiting time from the moment the truck enters the queue until it is inspected at the first control station.	
Average transit time for passengers (minutes/passenger)	Direction NI-HO	51.5	8.3		These indicators measure the average total time for completing immigration formalities for tourists crossing the border on foot in either direction.	
	Direction HO-NI	61.6	8.4			

¹¹ A similar set of indicators is proposed for the other border crossings to be financed by the program.

¹² The baseline data and targets are from the report prepared by the consulting firm hired to develop the baseline and simulate the conditions “with” the project at each of the border crossings.

OUTPUTS

Indicators	Unit of measurement	Basel ine 2015	Interim measurements					Final target	Source/means of verification	Comments
			1	2	3	4	5			
Component 1. Efficient and effective border control procedures										
Subcomponent 1.1. Integrated risk management system										
Regulatory reform projects that affect customs control procedures, implemented at the borders	Number of projects	0		1	2	2		5	Documents validated by Ministry of Finance	Changes to current regulations regarding best practices and new provisions on trade facilitation (WTO Trade Facilitation Agreement).
Reengineering of customs control processes and systems implemented	Number of systems	0			1			1	Consulting report	The report will review the current DGA study and will compare progress.
Risk management system coordinated and implemented at all border agencies	Number of systems	0					1	1	Executing agency report	The risk management system is a set of rules, working procedures, offices and IT tools for information processing.
Number of business people and/or public officials who have received technical assistance and training in trade and investment matters	Women	0		25	77	88	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		25	77	88	110	300		
Expanded Single Window for Foreign Trade of Nicaragua (VUCEN) integrates the recording systems of 16 state agencies	Number of systems	0					1	1	Executing agency report	For further detail on the VUCEN see the Monitoring and Evaluation Plan.
Number of integration agreements and regional and subregional cooperation initiatives supported	Agreements	0					8	8 ¹³	MIFIC existing trade agreements	Number of trade agreements in which Nicaragua has given commitments for trade facilitation and transparency in customs procedures.

¹³ The target corresponds to Nicaragua's agreements with WTO, MCCA, DR-CAFTA, CA-MX, EU-CA, FTAs with Chile, Taiwan, and Panama.

Number of officials and/or operators trained in handling new management and control systems and processes (VUCEN)	Women	0			25	30	20	150	Executing agency report	Training received by women at the borders. The participation reports will be disaggregated by gender.
	Men	0			25	30	20			
Management control systems developed and implemented at each border crossing	Number of systems	0			2		2	4	Executing agency report	For further details on the management control systems, see the Monitoring and Evaluation Plan.
Component 2. Investments in border infrastructure and equipment										
San Pancho border crossing, with rehabilitated infrastructure	Border crossing	0		1				1	Executing agency report	
San Pancho border crossing equipped	Border crossing	0		1				1	Executing agency report	Automated control centers, laboratories, nonintrusive control means installed and service teams functioning.
Peña Blanca, border crossing, with rehabilitated infrastructure	Border crossing	0			1			1	Executing agency report	
Peña Blanca border crossing equipped	Border crossing	0			1			1	Executing agency report	Automated control centers, laboratories, nonintrusive control means installed and service teams functioning.
El Guasaule border crossing, with rehabilitated infrastructure	Border crossing	0					1	1	Executing agency report	
El Guasaule border crossing equipped	Border crossing	0					1	1	Executing agency report	Automated control centers, laboratories, nonintrusive control means installed and service teams functioning.
Percentage of property titles issued to female heads of household or jointly to women and their partners	%	0						100%	Executing agency report	During the involuntary resettlement process.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Nicaragua
Project number:	NI-L1083
Project Name:	Border Integration Program
Executing agency:	Ministry of Finance (MHCP) through the General Coordination Office for Programs and Projects (CGPP)
Fiduciary Team:	Santiago Castillo and Osmin Mondragón (FMP/CNI)

I. EXECUTIVE SUMMARY

- 1.1 The executing agency for this operation will be the Ministry of Finance (MHCP) through the General Coordination Office for Programs and Projects (CGPP), which will be responsible for execution and for technical and financial supervision of the program, with the participation, among others, of the following institutions: MIFIC, MIGOB, MINSA, DGA, IPSA, and the National Police.
- 1.2 The country's financial administration system, known as the Integrated Financial Management and Audit System (SIGFA and SIGFAPRO), is adequate and reliable. With respect to procurement, the situation is improving, and it is therefore important to maintain an ongoing effort to make procurement management compatible with international best practices and consistent with Bank policies. This arm of the MHCP has experience in implementing Bank-financed projects such as 1545/SF-NI; ATN/OC-13340-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; and ATN/OC-14014-NI.
- 1.3 In the financial management area, the CGPP has demonstrated experience with an acceptable track record in executing various Bank-financed operations, as confirmed by the results of audit reports and financial and accounting supervision visits done by the Bank. Nevertheless, the institutional capacity assessment found a medium level of risk that is tending toward low, thanks to mitigation measures that have involved the hiring of additional staff and specific training to improve the performance of the CGPP and ensure that it can operate under the ex post disbursement review modality.
- 1.4 This operation is for the amount of US\$57.7 million (IDB US\$55 million and local contribution, US\$2.7 million).

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 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, which governs financial management of the public sector with budgeting, treasury, accounting and audit subsystems. That law also gives the MHCP responsibility for regulating its application.
- 2.2 CGPP staff members have experience in administering projects financed by external cooperation, and in particular projects financed by the Bank. Procurement processes are handled by a functional organizational structure with manuals (which need to be updated), using the Procurement Plan Execution System (SEPA). Procurement training will be provided, with a particular emphasis on Bank procedures.
- 2.3 When it comes to financial management, the CGPP uses the SIGFA, consisting of the following subsystems: budget, treasury, accounting and reports, supported by the exclusive system for projects (SIGFAPRO). The Bank is currently supporting the Government of Nicaragua in modernizing the financial administration system known as SIGFA, which will incorporate: (i) the MHCP's proprietary applications for recording and accounting for the public funds of the Financial Administration System; (ii) functionalities needed for administration of each public agency in accordance with its own characteristics and administrative autonomy; (iii) results-based budgeting; (iv) administrative management of agencies by full transactional cycles; and (v) international accounting standards, with automatic generation of statistics on the public finances. The performance of the executing agency's staff is considered satisfactory: employees have experience in carrying out various projects with external financing. To ensure that this level of performance is sustainable, the Bank will maintain an ongoing training plan for current personnel and any additional staff required.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The technical and fiduciary capacities of the CGPP will be strengthened by contracting the following personnel: (i) a procurement specialist, (ii) an accountant, (iii) a specialist in preparation of terms of reference and technical specifications, (iv) a legal adviser, (v) a program technical coordinator, and (vi) a specialist in strategic planning. New hires must have the Bank's prior no objection to ensure that they have the appropriate profile for executing the program.
- 3.2 In terms of procurement and financial management, the risk is medium. For procurement, the executing agency needs adequate physical space, sufficient personnel, and an updated procurement manual, for which the following recommendations are made: (i) allocate suitable premises for staff of the program procurement unit; (ii) hire an experienced procurement specialist; and (iii) update

the manual of organization, procedures and functions of the procurement unit, detailing the role of procurement in the process of contract administration. In addition: (a) update the organizational chart for the CGPP, approved by senior management of the MHCP; (b) update the finalized and approved procedural manuals, to meet the demands of the new operation: organization and functions, processes and procedures; planning, financial aspects; procurement; personnel administration; (c) prepare the program Operating Regulations, which should include rules for the handling of funds from the Bank loan and the counterpart contribution; (d) design the profiles and terms of reference for selection and contracting of persons who will be required to carry out the activities called for in the program; (e) hire program personnel who meet the profiles and the technical and professional requirements of the operation, with the Bank's prior no objection; (f) implement a staff replacement plan in case of temporary absences; (g) the Bank's fiduciary sector should provide training in financial management and procurement management for personnel of the financial coordination office, the procurement coordination office, and the administrative coordination office of the CGPP; (h) prepare rules concerning the obtaining of safeguards on the part of personnel, applicable to any manual or instruction to ensure: (i) refresher training for new and existing personnel, at least once a year; (ii) declaration of conflicts of interest; and (iii) declaration, by personnel working in processes, that they are familiar with and understand the control activities; (i) prepare an IT tool to facilitate the monitoring of procurement processes and administration of contracts, with the capacity to produce reports on program and project processes, classified by source of financing, type of process, method, objective, nature, type of review etc.; facilitating the real time invested in each process; (j) assign a person to archive administration functions; and (k) take steps to improve the security of documents and important information on the program and project procurement processes of the CGPP.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

- 4.1 To facilitate negotiation of the contract by the project team, and by the Legal Department (LEG) in particular, the following agreements and requirements will be considered in the special contractual conditions: (i) obtain the Bank's no objection to hiring the following consultants to build the institutional capacity of the CGPP of the MHCP, in accordance with terms of reference agreed on with the Bank: (1) a procurement specialist, (2) an accountant, (3) a specialist in preparing terms of reference and technical specifications, (4) a legal adviser, (5) a project technical coordinator, and (6) a strategic planning specialist; (ii) present evidence that the Strategic Steering Committee has been formally constituted; and (iii) present the program Operating Regulations, establishing among other things the responsibilities of each agency involved in program implementation, and present the aide-mémoire on preparation and approval of the Operating Regulations, signed by the main institutions involved in the program, namely the MHCP, the Ministry of Development, Industry, and Trade, the Ministry of the

Interior, the Ministry of Health, the Customs Services Bureau, the Agricultural Health and Protection Institute, and the National Police. In addition: (a) in order to avoid exchange rate losses, it is recommended that the exchange rate in effect in Nicaragua on the date the funds were converted to córdobas by the CGPP be used; and (b) audited financial statements for the program must be submitted within 120 days after the closing of each calendar year, and during the original disbursement period or any extensions to it.

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.

A. Procurement execution

- 5.2 **Procurement of works, goods and nonconsulting services.** Contracts for works, goods and non consulting 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 (NCB) will be executed using country bidding documents agreed on with the Bank. The program sector specialist will be responsible for reviewing the technical specifications of procurement during preparation of selection processes.

- 5.3 Procurement of information technology systems: Not applicable.

- 5.4 “Turn-key” procurement: Not applicable.

- 5.5 Procurement with community participation: Not applicable.

B. Selection and contracting of consultants

- 5.6 Consulting services required under the program will be contracted using the Standard Request for Proposals issued by or agreed on with the Bank. The program sector specialist will be responsible for reviewing the terms of reference for contracting consulting services.

- 5.7 Selection of individual consultants: There will be cases in which individual consultants may be contracted by placing local or international announcements for the purpose of establishing a shortlist of qualified individuals.

- 5.8 Training: Not applicable.

C. Use of country procurement systems

- 5.9 The country procurement (sub)system approved by the Bank, SISCAE, will be used to publish the announcements requesting expressions of interest and/or calls for tender for all procurement and contracting processes. Any system or subsystem approved subsequently will be applicable to the operation. The

procurement plan for the operation and its updates will indicate which contracts are to be executed through the approved country systems.

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

5.11 **Advanced procurement/retroactive financing.** The Bank may provide financing retroactively, with funds from the loan, for up to the equivalent of US\$100,000 (0.17% of the proposed loan amount), for eligible expenditures made by the borrower prior to the loan approval date to hire consultants to build the CGPP's institutional capacity, provided that requirements substantially similar to those established in the loan contract were met.

5.12 Domestic preference: Not applicable.

D. International bidding thresholds and international shortlist (US\$ thousands)

Method	ICB works	ICB goods and nonconsulting services	International shortlist of consultants
Threshold amount	>1,500	>150	>200

E. Main procurement items

Activity	Selection method	Estimated date of call for proposals/tenders	Estimated amount US\$
Works			
Design/construction of infrastructure for the SP border crossing	ICB	Dec 2015	9,785.557
Design/construction of infrastructure for the PB border crossing	ICB	May 2017	17,665.044
Design/construction of infrastructure for EG border crossing	ICB	Nov 2018	7,569.861
Construct infrastructure to house the data center	NCB	Sept 2015	350
Construct infrastructure for VUCEN	NCB	Sept 2015	250
Goods			
Equipment and servers to operate the system	ICB	April 2016	900
Equipment for VUCEN	ICB	Mar 2016	300
Water treatment plant	ICB	Sept 2016	245
Water treatment plant	ICB	Dec 2017	350
Water treatment plant	ICB	May 2019	220.5
Nonconsulting services			
Logistics for presentation of the proposed legal framework of VUCEN in the Legislative Assembly	Shopping	Jul 2015	100
Workshops held on the new regulatory framework	Shopping	May 2017	80
Firms			
Dimensioning and mapping of operational needs for fiscal and parafiscal control processes	QCBS	Jul 2015	370
Design of the program to create comprehensive risk management capacities	QCBS	Sept 15	250
Design of the VUCEN modules	QCBS	Sept 2015	250
Development of the VUCEN modules	QCBS	Feb 2016	250

Implementation of the VUCEN modules	QCBS	Jun 2016	200
Feasibility study for the SP border crossing	QCBS	Jul 2015	400
Supervision of infrastructure works for the SP border crossing	QCBS	Dec 2015	1,200
Feasibility study prepared for the PB border crossing	QCBS	Dec 2016	400
Supervision of infrastructure works for the PB border crossing	QCBS	May 2017	2,360.024
Feasibility study for the EG border crossing	QCBS	May 2018	400
Supervision of infrastructure works for the EG border crossing	QCBS	Oct 2018	2,424.012
Individual consultants			
Design of risk profiles	3CV	Sept 2015	120
Design and implementation of the program to create capacities for management and operation of VUCEN	3CV	Jun 2016	150

* To access the 18-month procurement plan, click [here](#).

5.13 **Procurement supervision.** The method for supervising procurement will be set out in the procurement plan, and will be determined for each selection process. Ex post reviews will be conducted every six months in accordance with the program supervision plan. Ex post review reports will include at least one physical inspection visit, selected from among the procurement processes subject to ex post review. No fewer than 10% of contracts reviewed must be inspected physically.

Thresholds for ex post review		
Works	Goods	Nonconsulting services
US\$150,000.00	US\$25,000.00	US\$200,000.00

Note: The thresholds established for ex post review are based on the executing agency's fiduciary capacity for execution and may be amended by the Bank as that capacity changes.

F. Special provisions

5.14 Measures to reduce the likelihood of corruption: adopt an institutional code of ethics and conduct for staff that covers the procurement division, with special emphasis on conflict of interest.

5.15 Other special procedures: Not applicable.

G. Records and files

5.16 The documentation required for fiduciary management (procurement and finance) will be kept in orderly files and records stored under secure conditions in the offices of the CGPP, using the reporting forms established for the program pursuant to the procedures agreed on and described in the program Operating Regulations.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 6.1 **Programming and budget.** The public sector uses as a country system the one authorized by the Financial Administration and Budgetary Regime Act and established in the National Public Investment System (SNIP), following the approval cycle for the General Budget of the Republic. The CGPP will ensure that the necessary budget allocations are in place in order to have sufficient budget credits to cover the annual execution commitments, and it will use the Integrated Financial and Administrative Management System (SIGFAPRO) as the financial and accounting system acceptable to the Bank. If there are changes that improve the project administration module of the SIGFA/SIGFAPRO of the Integrated Administrative, Financial, and Audit Management System, now in the process of being upgraded, there will be an immediate migration to that improved system.
- 6.2 **Disbursements and cash flow.** The Bank will make disbursements to the executing agency through the Central Bank of Nicaragua, into a special account opened for the operation. Disbursements will be made in accordance with the program's actual liquidity needs (financial planning). The disbursement request will be submitted to the Bank jointly with a schedule of expenditures by activity in the Annual Work Plan for the following 180 days. Disbursements must be accounted for to an extent of at least 80% in order to seek a new disbursement, which must be aligned with the Program Execution Plan, the Annual Work Plan, and the Procurement Plan. Cash flows may include payment of interest during the execution period with funds from the loan, consistent with the amount established in the program budget (sole annex). As this is a blended operation, interest will not be automatically capitalized.
- 6.3 **Accounting and financial reports.** The program financial statements must be issued in accordance with International Accounting Standards and in a manner consistent with the Bank's Financial Management Policy (document OP-273-6). The statements must be audited annually by an eligible independent audit firm. For financial accounting purposes, the SIGFA/SIGFAPRO system will be used, as it offers transparency and specific control in budgetary execution.
- 6.4 **Internal control and internal audit.** The control environment, control activities, communication and information and monitoring of activities of the CGPP are governed by country standards (Technical Standards of Internal Control). The CGPP has an acceptable internal control system, with manuals and defined procedures. At the central level, the MHCP has an internal audit office that is expected to include the review of program execution in its annual audit plan, insofar as it is able to do so.
- 6.5 **External control and reports.** The CGPP will hire an eligible independent audit firm, following the procedures established by the Bank. The external audit reports on the program and the ex post review of procurement processes and disbursement requests will be presented within 120 days after the end of each fiscal year during the disbursement phase, and 120 calendar days after the original

disbursement period or any extensions to it, based on the International Standards on Auditing. The audited annual financial statements will be prepared in accordance with the guidelines for financial and external audit reports on Bank-financed projects.

A. Financial supervision plan

- 6.6 For the financial monitoring of the program, the CGPP would use the audited and unaudited financial reports. The Bank will take the following actions: (i) prior to the first disbursement of the loan, it will conduct a launch workshop to train personnel responsible for program execution in accordance with the fiduciary management regulatory instruments; (ii) conduct accounting/financial visits to confirm progress with program execution and the introduction of internal control measures, with an emphasis on gathering information on financial execution processes, quality and timeliness of accounting records and the relevance of supporting documentation; and (iii) ex post review of disbursement requests by Bank staff and the external auditor.
- 6.7 **Execution mechanism.** The CGPP will act on behalf of the MHCP to centralize execution of payments and commitments under the operation, in close coordination with the participating bodies/beneficiaries of the program.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/15

Nicaragua. Loan ____/BL-NI to the Republic of Nicaragua
Border Integration Program

The Board of Executive

Directors RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Nicaragua, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Border Integration Program. Such financing will be for the amount of up to US\$33,000,000 from the resources of the Single Currency Facility of the Bank's Ordinary Capital, corresponds to a parallel loan within the framework of the multilateral debt relief and concessional finance reform of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2015)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/15

Nicaragua. Loan ___/BL-NI to the Republic of Nicaragua
Border Integration Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Nicaragua, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Border Integration Program. Such financing will be for the amount of up to US\$22,000,000 from the resources of the Bank's Fund for Special Operations, corresponds to a parallel loan within the framework of the multilateral debt relief and concessional finance reform of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____ 2015)