

PROGRAM FOR EFFICIENCY AND TRANSPARENCY IN GOVERNMENT PROCUREMENT

(NI-0143)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Nicaragua	
Executing agency:	Technical Secretariat of the Office of the President (SETEC), in coordination with the Procurement Office (DC) of the Ministry of Finance and Public Credit (Ministerio de Hacienda y Crédito Público - MHyCP)	
Amount and source:	IDB: (FSO)	US\$18,000,000
	Local:	US\$ 4,500,000
	Total:	US\$22,500,000
Terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	4 years (plus another 6 months in the case of resources for auditing and a final evaluation)
	Interest rate:	1% during the grace period and 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5%
Objectives:	To improve efficiency and transparency in the government procurement system.	
Description:	The Government of Nicaragua is promoting reforms to regulate government procurement and to improve its efficiency and transparency. The reforms include a new government procurement act and a program to make government procurement more efficient and transparent. Part of this program is a loan operation with the Bank, hereinafter "the operation", that will help address the needs that the country's reconstruction poses by strengthening internal oversight and management systems in the principal government agencies, including training for the personnel involved in those systems.	

The program will also develop a new, modern and sustainable procurement system. A parallel technical cooperation operation is being prepared for that purpose and will be submitted to the Donors Committee of the Multilateral Investment Fund (the respective eligibility memorandum has been approved).

The proposed program has the following components:

1. **Project inspection** will strengthen the Executive Branch's system for internal oversight of government agencies' procurement to ensure transparent use of resources. The inspection work will focus on procurement procedures in those agencies, regardless of the source of funding or the type of entity carrying out the procurement. The inspections to be done will address technical (including environmental), financial, administrative, procedural and control issues, including supervision of construction works. The reports that the inspections produce will be disclosed to the public. A consulting firm will implement this component and will be hired by the government in accordance with terms of reference agreed upon by the Bank and government and on which the "Group of Five" will be consulted.¹
2. **Procurement management support** will upgrade and consolidate the capacity for preparing and managing procurement in seven government agencies, to keep pace with the higher level of performance that the rebuilding from Hurricane Mitch necessitates. The Procurement Office will also be assisted to enable it to fulfill its mandates under the new Procurement Act. It is recommended that two consulting firms be hired for this component: one to assist the participating agencies' procurement units, and the other to work with the Procurement Office. The government and the Bank will agree upon the terms of reference for these consulting firms.
3. **Development and introduction of training in procurement** will establish a sustainable training structure in Nicaragua for ongoing training of personnel involved in procurement. To carry out its responsibilities under the Procurement Act as the government unit regulating the procurement system, the Procurement Office will provide the training, with the assistance of a consulting firm. The consulting firm will determine how the training structure should be organized, prepare and implement

¹ A group of countries composed of the United States, Spain, Canada, Germany, Sweden and Japan, representing the donor community, based in Managua.

the training programs and manuals and the criteria for updating both, identify the target population, train the instructors and publicize the training program.

At the same time, a technical cooperation operation is being readied for presentation to the MIF's Donors Committee for the development and implementation of a new procurement system. The purpose of the operation is to establish a new system in Nicaragua to promote sustainable efficiency and transparency. In principle, the new system will have four basic elements: a regulatory entity charged with regulating and standardizing the national procurement system; a sustainable internal oversight system; a structure for training and its dissemination among the private sector; and an information system and database for efficient and responsive use of resources, transparency and broad-based participation by all the stakeholders.

**The Bank's
country and
sector strategy:**

As set forth in the country paper, the goal of the Bank's strategy is sustained economic development. The strategy targets include: continuity in the orderly reorganization of the public sector as part of the government reform now under way; more efficient and transparent management of public funds [financial and administrative management system] (SIGFA), and measures that promote good governance. The present operation fits into that strategy as it involves activities that are essential to enhancing good governance and transparency in government procurement, in coordination with national financial systems and other steps being taken to modernize the State.

**Environmental
and social
review:**

The operation's environmental strategy consists of specific measures under each component. As noted in section IV (environmental concerns) of this document, those measures were incorporated pursuant to recommendations that the Committee on Environment and Social Impact (CESI) made at its 18 January 2000 meeting.

Benefits:

The support that this operation will provide to the procurement system is informed by mandates given under the new Procurement Act and intended to make the system more efficient and transparent, thereby increasing public confidence in it.

Shorter tendering processes, lower attendant costs, and stronger institutional management will improve efficiency. The information system to be developed will improve transparency, serve as a tool for enforcing the new legislation enacted to promote greater efficiency, disclosure and transparency, which will be beneficial to the participating public- and private-sector stakeholders. As these improvements are made, efficiency and transparency will increase, thus improving reliability and the perception that the public and the international community have of competitive bidding operations.

This, in turn, will increase inflows of external resources.

Lastly, an improved capability for internal oversight and procurement management will help handle the increased volume of procurement that the country's reconstruction necessitates. Moreover, the bases will be laid for establishing the new procurement system and the institutionalized training structure needed to provide the necessary support personnel and a sustainable mechanism for training them.

Risks:

Operations of this type generally involve risks associated with the leadership required to introduce the measures. The government has made this operation a top priority and has undertaken important commitments vis-à-vis the program, including commitments with the IMF that are built into the comprehensive poverty reduction strategy to make certain key activities in this operation conditions for reaching the decision point under the Heavily Indebted Poor Countries (HIPC) Initiative (initiation of the consulting services for the inspection component and the management support component).

To mitigate the risks that this operation's activities entail, an agreement was reached with the authorities that the executing agency would be the Technical Secretariat of the Office of the President of the Republic, an advisory body at a higher level whose projects include major reform programs. It has the capacity to conduct the activities planned under the proposed operation and to assume the leadership role that those activities require.

The operation will need financial support from the donor community. At the May 1999 meeting of the Consultative Group in Stockholm, and again at the May 2000 meeting in Washington D.C., the international community expressed its support for the program because it will help make procurement more efficient and transparent. Nevertheless, the formalities for approval and implementation of the cofinancing and respective administration agreements may cause delays in program execution. The borrower has committed to providing resources from the National Budget if necessary to supplement program financing. However, given current fiscal constraints, it may not be feasible for contributions from the National Budget to be made on a timely basis if donor resources prove insufficient, presenting a risk for program execution. To mitigate this risk, as a condition precedent to the first disbursement of the proposed loan, grant agreements must be signed by the Government of Nicaragua and the donor agencies and the respective administration agreements by the donors and the Bank for the equivalent of at least US\$4.5 million in total grants.

Previously fulfilled conditions:

- Letters of intent have been received or grant contracts concluded between the government and the cooperating parties totaling the equivalent of at least US\$1.5 million (see paragraph 5.21).

Special contractual conditions:

The following special conditions will be included in the contract, in addition to the standard clauses:

Conditions precedent to the first disbursement:

- An executive decree creating the executing unit must have entered into force (see paragraph 5.1)
- The Operating Regulations agreed upon with the Bank must have entered into force (see paragraph 5.5).
- The Government of Nicaragua and donors must have entered into grant agreements, and the cooperating partners and the Bank are to conclude the respective management agreements, for at least US\$ 4.5 million (see paragraph 5.21).

Conditions precedent to disbursement of resources for the training component:

SETEC and MHyCP are to have concluded an agreement that must, at a minimum, stipulate the terms indicated in paragraph 5.19.

Other special conditions:

- The borrower is to disclose the final inspection reports to the public (see paragraph 2.9).
- The executing agency, MHyCP and the respective government agency are to enter into agreements before those agencies may participate in the management support component (see paragraph 5.17).
- The terms of reference for the consulting firms are to include the environment-related functions indicated in paragraph 4.1.
- The government, donors and the Bank are to hold the periodic project coordination and monitoring meetings referred to in paragraph 5.22, and the executing agency is to submit the reports described in paragraph 5.29.

Poverty-targeting and social sector

This operation does not qualify as a social equity project as described in the key objectives of the Bank's activity set forth in the Report on the Eighth General Increase in Resources (document AB-1704), nor

classification: does it qualify as a poverty-targeted initiative (PTI).

**Exceptions to
Bank policy:** None

Procurement: International competitive bidding will be required for the procurement of goods in amounts above US\$250,000. The proposed operation does not call for any construction contracts. Procurement in amounts below US\$250,000 will, in principle, be carried out in accordance with local legislation. International competitive bidding will be required for the selection and hiring of consulting services in amounts above US\$200,000.

For the evaluation of bids under the inspection component, the procedure of hiring based on quality and price will be followed. The relative weight of price may not exceed 20%. Accordingly, the weight given to technical or quality considerations must be no less than 80%. (see paragraphs 5.24 and 5.25).

I. BACKGROUND

A. General background

- 1.1 The international community and multilateral financing agencies, the Bank included, are assisting a number of structural reforms in Nicaragua intended to build a market economy. Those reforms will be carried out as part of the comprehensive poverty reduction strategy (ERRP) agreed upon with the International Monetary Fund, which also focuses on other key issues such as State reform, good governance and transparency.
- 1.2 During the 1980s, Nicaragua's government was in disarray and the institutions of government collapsed under the weight of an economy riddled with administrative problems and a state of civil war. In the early 1990s, Nicaragua instituted a series of profound changes to lay the groundwork for a market economy with an as yet very weak private sector at the lead. Implicit in that goal was greater interaction between the public sector and private sector, where government procurement plays an important role (government procurements in Nicaragua account for between 10% and 15% of GDP). However, Nicaragua has still not managed to institute an adequate system for government procurement.
- 1.3 Hurricane Mitch further complicated the situation. External assistance increased markedly, raising investment well above its normal level. Tighter operating management and control of the public sector's procurement is needed to enable that sector to react promptly and properly. Overhauling these systems is also an opportunity to make them more efficient and transparent, in step with the overall State modernization process and the transparency-related efforts that other government agencies are making with funding from the Bank¹ and other sources.
- 1.4 Against this backdrop, the Government of Nicaragua requested the Bank's cooperation to improve efficiency and transparency in government procurement, in order to meet the needs resulting from the rebuilding necessitated by Hurricane Mitch, to strengthen internal oversight and management of procurements at the principal government agencies, which would include training for personnel involved. At the same time, the government also requested financing from the Multilateral Investment Fund for a technical cooperation operation to plan and design a modern and sustainable national procurement system. The eligibility memorandum needed to begin processing that technical cooperation operation was approved on 19 July 2000.

¹ The Bank is assisting the Office of the Vice President of the Republic with the following: strengthening of the National Economic and Social Planning Council (Consejo Nacional de Planificación Económica y Social – CONPES), the national integrity plan, which includes the strategy for a program to promote transparency and integrity, preparation of preliminary draft legislation on administrative probity, the civil service, citizen participation and better access to information, among others.

B. Analysis of the procurement system

1. The legal framework

- 1.5 The legal framework for government procurement is a combination of Law 290 on the organization, competence and procedures of the executive power, enacted in June 1998, and Law 323 on government contracting (Ley de Contrataciones del Estado-LCE), enacted on 3 January 2000.
- a. Law 290 and its general regulations give the Ministry of Finance and Public Credit, by way of its Procurement Office, the authority to formulate and propose general procurement standards and procedures and to ensure that they are correctly applied. Under the law, it is also to administer a central database of suppliers and contractors.
 - b. Law 323 and its general regulations broaden the responsibilities of the Procurement Office, which will serve as the body regulating the public sector's entire procurement system, including technical assistance to the various government offices and agencies on a number of issues, such as establishing and developing procurement units, preparing organization manuals, internal oversight, functions and procedures, and staff training. This unit is also in charge of the data system for contracting operations, the register of suppliers and the reference price system.
 - c. In June 2000, the National Assembly passed Law 349, which amended certain articles of law 323. The new law was intended, *inter alia*, to establish a clear principle of equal and free competition, eliminating any restrictions and preferences that the original law had allowed and that had been a concern to multilateral and bilateral financing agencies. With these changes, Nicaragua's body of law on government procurement is premised upon principles of efficiency, openness and transparency, equality and free competition. The purpose of this operation is to help the government implement the new legal framework, especially application of the mentioned principles.
- 1.6 This body of law, including the amendments introduced in June 2000, also provides a proper legal framework for this operation, because it: (a) defines the organizational structure of the procurement system, composed of the central regulatory body at the MHyCP and sectoral units in the government agencies and public persons subject to the Procurement Act and in charge of planning, advising and monitoring government contracting procedures, to advise and assist the tendering committee; (b) creates the database for contracting systems and the suppliers database while determining what their content will be; (c) regulates publication of the evaluation reports and the procurement schedule and the use of computers in the procurement; (d) finally, that body of law stipulates that the

regulatory unit will advise the state comptroller agencies of any anomaly detected, for the necessary legal purposes.

2. Institutional analysis

- 1.7 In April 1999, the Bank contracted for a general study of institutional procurement capacity at the national level and recently did a number of specific diagnostic studies of procurement capability at the agencies participating in the operation. These studies found that institutional procurement capacity is in general weak and very uneven and that assistance will be required to perform the activities planned in the reconstruction and transformation plans.
- 1.8 Some agencies have managed to cultivate capacities in the area of management, organization, personnel, procedures and procurements control, all of which have to be reinforced to handle the increased volume of activity that post-hurricane reconstruction necessitates. Other agencies that do not presently have the capacity to perform procurement functions will need to be strengthened on a more basic level, including organization, management, control and training. Institutions often do not have the properly trained staff needed to perform procurement-related functions, or institutionalized programs to teach staff how to perform those functions. The new laws only complicate the situation, since as a general rule the staff in charge of contracting do not understand how the laws are applied.
- 1.9 The diagnostic studies also found that some agencies do not have the legally required system for internal regulation of procurement, exposing them to the possibility of problems with efficiency and transparency. This situation is further complicated by the fact that public investment for the needed rebuilding is on the rise.
- 1.10 What follows is a summary of the principal findings of the diagnostic studies done of the government agencies that will participate in the management support and training components of this operation, which were selected by the criteria described in paragraph 2.12:

TABLE 1 – INSTITUTIONAL DIAGNOSTIC STUDIES

Agency	Findings of the Diagnostic Study
Emergency Social Investment Fund (FISE)	<p>FISE's internal procurement environment is satisfactory given the considerable experience it has gained in the contracting area. The external environment, however, is not so positive, because the institutions involved in FISE projects, the municipal governments, the Nicaraguan Municipal Development Institute (Instituto Nicaragüense de Fomento Municipal-INIFOM) and the Ministries of Health and Education are not as strong in this area. This external environment poses a high risk that can jeopardize the efficiency of the functions that FISE performs, especially in the contracting and supervision of works.</p> <p>The main problems with FISE's contracting functions are because the following are lacking:</p> <ul style="list-style-type: none"> ☛ a definition of its functions and the quality of the works being contracted; ☛ norms, standards and technical specifications of goods and equipment. <p>Although FISE's functions are strictly those of a project financing and executing agency, its responsibilities have had to be stretched well beyond that, which itself poses a serious risk to its operations' efficiency.</p>
Ministry of Health (MINSA)	<p>The main problems found with MINSA's management of procurement are attributable to a lack of the following:</p> <ul style="list-style-type: none"> ☛ a master plan for contract management; ☛ a clear demarcation of functions and responsibilities vis-à-vis the various activities entailed in the procurement processes, and ☛ manuals with standard designs and specifications for works and medical equipment to be purchased. The study also found a considerable incidence of direct contracting, which can put contracting efficiency and transparency at risk.
Ministry of Transportation and Infrastructure (MTI)	<p>The MTI's years of experience have enabled it to sharpen and improve its contracting procedures. However, problems were detected, mainly attributable to a lack of:</p> <ul style="list-style-type: none"> ☛ a master plan upon which to base the annual systematic programming, thereby risking a proliferation of contracts, which are generally not the most economical option; ☛ a capacity to review designs and a system for internal regulation of bidding and contracting; ☛ transparent procedures for technical/economic evaluations of the works to be carried out; ☛ uniform contract terms and conditions and standard criteria by which bids are evaluated.
Rural Development Institute (IDR)	<p>While on the whole no major problems were found with the IDR's procurement procedures, the following were lacking:</p> <ul style="list-style-type: none"> ☛ unified, standardized criteria, procedures and bidding documents in all its assigned programs and projects; ☛ contract scheduling, which jeopardizes timely contract performance; ☛ good technical and managerial supervision; ☛ staff experienced in contracting through competitive bidding.
Ministry of Education, Culture and Sports (MECD)	<p>At the MECD, project executing units that contract works financed with national resources are attached to the unit for national coordination of projects, which is still in transition and does not yet have the resources needed to perform the functions involved in planning, programming, executing and overseeing contracts.</p>

<p>Nicaraguan Water Supply and Sewerage Company (ENACAL)</p>	<p>The procurement system at ENACAL is acceptable. However, procedures are too centralized, thereby thwarting cultivation of regional capacities. Other problems include the following:</p> <ul style="list-style-type: none"> ☛ a failure to plan and advertise the procurements to be made during the year, which would improve the transparency of the processes and increase business participation; ☛ a lack of adequate follow-up and control, making it impossible to evaluate processes and procedures; ☛ delays in the processes owing to the lack of a standard interpretation of the government Procurement Act; ☛ a lack of up-to-date manuals on organization, functions and procedure in procurement.
<p>Nicaraguan Municipal Development Institute (INIFOM)</p>	<p>INIFOM does not make purchases or contracts intended for investment; instead, it channels resources through executing units that enter into agreements with municipalities to establish municipal technical units that will conduct the projects. In this scenario, the general environment for the purchases and contracts made by the municipalities is a difficult one, especially given the institutional weakness of mayoral offices, the lack of technical expertise for procurement, and the absence of adequate supervision and control.</p>

C. The operation' s role in the Bank' s strategy

- 1.11 The goal of the Bank's strategy, as mapped out in the country paper, is sustained economic development. Its plans include the following: lending continuity to the public sector's orderly adjustment, as part of the State reform currently underway; strengthening efficient and transparent management of public resources through the integrated financial and administrative management system (SIGFA), and promoting measures calculated to improve good governance. The present operation fits into that strategy, as its measures are essential to improving good governance and transparency in government procurement, to coordinate with the national financial systems and with other State modernization processes.

II. OBJECTIVES AND DESCRIPTION

A. Objective

- 2.1 The operation's objective is a more efficient and transparent government procurement system.

B. Description

- 2.2 The Nicaraguan government is pushing reforms in the area of procurement² for regulation of government procurement and to make it more efficient and transparent. The reforms include a new government Procurement Act and a program for more efficient and transparent government procurement. The latter includes a loan operation with the Bank, hereinafter "the operation," which would address the needs that the country's rebuilding poses by strengthening the internal oversight and management systems at the public sector's main agencies. This would include training for the personnel involved in those systems. The operation's components are in project inspection, management support and training.
- 2.3 With this program the government also plans to develop a new, modern and sustainable procurement system and to that end is preparing a technical cooperation operation, which it will present to the Donors Committee of the Multilateral Investment Fund.
- 2.4 The operation has been structured as a system made up of discrete, interrelated and individually recognizable components. Component (a), **project inspection**, will build up the Executive Branch's internal regulation of public sector agencies' procurement and provide experiences that can be used for the future internal oversight mechanism. Component (b), **management support**, will improve preparation and execution of procurement, further application and dissemination of the new laws, and train the personnel involved. This component will also be crucial to establishing standards and data systems to modernize the national procurement system. Similarly, component (c), **training**, will establish an institutionalized program of instruction in procurement for the staff involved. Finally, the experience and lessons learned from these three components will be used to develop a modern procurement system.
- 2.5 The project-inspection component and procurement-and-contract-management-support component have been designed with a view to better internal regulation, preparation and management of procurement, which have increased considerably

² This refers to the procurement procedures that the State uses for public works, goods and services, from budgeting to delivery of the final product, regardless of method, whether it be: purchase, rental or lease with or without option to buy, or any combination of these, irrespective of the source of financing.

with the rebuilding of the country. In the medium term, development and introduction of the training system and the new national procurement system will modernize and transform government procurement in Nicaragua. The common bond between these two major thrusts is technology transfer, which is built into the first two components and is at the foundation of the new system.

C. Components

- 2.6 The operation with the Bank being examined in this document consists of the following components:

1. Project inspection (US\$11.4 million)

- 2.7 With this component, the executive branch's system for internal regulation in government agencies will be upgraded to ensure more transparent use of local resources, external grants and loans that finance goods, services and public works. This will be done by inspecting the procurement processes, irrespective of the source of funding (external or local) or of the juristic personality of the public entity effecting those procurements and contracts.
- 2.8 The inspections will verify whether public sector agencies' procurement is done properly, at every stage of the respective process. Principles of concurrent auditing will be used so that procurement processes can be checked from every angle: technical, financial, administrative, procedural, control and execution, including supervision of public works, starting with planning and original budgeting through to completion and final delivery. Statistical sampling will be done to examine the procurement procedures in order to evaluate results and thus provide sufficient, reliable evidence and issue opinions and recommendations on the findings, all with a view to constant improvement. As this activity is in progress, the personnel in charge of supervising and monitoring the internal regulation of procurement will receive instruction.
- 2.9 The findings of the inspections will be delivered to the agencies in question, to the Technical Secretariat of the Office of the President and to the Procurement Office. For purposes of transparency, the consulting firm contracted will prepare periodic reports on the findings of the inspections that will be posted on a Web site accessible to the public. Copies of each final inspection report will also be available to the public at the Procurement Office's information center.
- 2.10 The purpose of project inspection will be to strengthen existing internal oversights, not to replace existing controls or interfere with the external controls that Nicaraguan law delegates to other government agencies. Nor will the inspections replace the external audits that bilateral or multilateral financing agencies require for specific projects.

2. Procurement management support (US\$6.6 million)

- 2.11 This component will build up and increase the capability for preparing and managing government agencies' procurement. The reconstruction necessary in the wake of Hurricane Mitch has required these agencies to raise their performance levels. There are also plans to provide assistance to the MHyCP's Procurement Office. Under the Procurement Act, that office regulates and controls the public sector's entire procurement system. In the near term, therefore, that office will have a number of new functions to perform.
- 2.12 The assistance with contract management was planned on the basis of an evaluation of the contract management capability at seven government agencies, selected because they account for 80% of the public investments that have to be made and, therefore, most of the procurement. This figure does not include the telecommunications and electric power businesses currently being privatized, which combined account for some 14% of investment. The following agencies will participate in this component:
- Ministry of Health (MINSA)
 - Ministry of Education, Culture and Sports (MED)
 - Nicaraguan Municipal Development Institute (INIFOM)
 - Social Investment Fund (FISE)
 - Rural Development Institute (IDR)
 - Nicaraguan Water Supply and Sewerage Company (ENACAL)
 - Ministry of Transportation and Infrastructure (MTI)
- 2.13 The support provided to each of the above agencies will be driven by the needs identified in the specific diagnostic studies mentioned in the table in Section I, B number 2. The support will be calculated to help agencies discharge the mandates given under the new Procurement Act and consists of activities associated with the following:
- assisting the formation and startup of the procurement unit;
 - strengthening the planning and programming functions;
 - introducing and tracking the internal oversight systems;
 - providing basic training to the participants involved;

- updating manuals (organization, internal oversights, functions and procedures) and data systems, according to the general instructions prepared by the regulatory body;
- adjusting data systems to comply with the regulatory body's requirements in this regard.

2.14 The support to the MHyCP Procurement Office will target the following:

- strengthening its regulatory functions: guidelines will be established for preparing manuals on organization, internal regulation, functions and procedures; prototype bidding forms, terms and conditions and contracts;
- helping to design databases for programming purchases and contracts, monitoring procurement processes, purveyors, a catalogue of goods, contracts, commitments and reference prices. These would be an integral part of the SIGFA procurement programming module, and
- conducting studies on price behavior.

3. Developing and introduction of training in procurement (US\$0.8 million)

2.15 This component will equip Nicaragua with a sustainable training structure for institutionalized instruction in procurement and contract management, for the various parties involved in both the public and private sectors, as needed.

2.16 This function is stipulated in the government Procurement Act, Article 18 of which stipulates that it is the duty of the MHyCP Procurement Office to provide institutionalized training to the various offices and agencies in the public sector.

2.17 Accordingly, the Procurement Office will be assisted with:

- crafting the organization of the training structure;
- developing training programs and materials in procurement, and updating them;
- identifying the target population;
- training the corps of instructors; and
- disseminating the training programs.

2.18 This support will be provided through consulting services, which will last 24 months. Their role will diminish as time passes.

D. Development and introduction of a new government procurement system

- 2.19 This project, which is part of the government's program, will be prepared with a technical cooperation operation costing an estimated US\$1.5 million, which will be submitted to the MIF Donors Committee for consideration. Its purpose is to promote sustainable procurement transparency and efficiency by planning and developing a new national procurement system.
- 2.20 The system must be designed and introduced to be responsive to the country's specific characteristics and needs and provide for the coordination needed with other projects and programs on government modernization in Nicaragua.
- 2.21 The following must be taken into account when building this new model: (a) the institutional diagnostic studies on procurement; (b) experience and lessons learned during the operation, particularly with the components on project inspection, management support and training; and (c) analysis of successful models of similar legislation in other countries, which the Nicaraguan government might use to introduce the new procurement system.
- 2.22 This new system, which makes the contracting process part of the general economy once and for all, will in principle involve four basic elements: a regulatory body; an internal oversight system; a training structure, and a data system, as follows:
- a. Development and modernization of the regulatory body: Under Nicaragua's new Procurement Act, the MHyCP Procurement Office is responsible for regulating the entire public sector procurement system. The office will have to continually update the laws and regulations governing the procurement system. It will also design the databases, which will cover: programming of procurement, monitoring of procurement processes, suppliers, catalogue of goods, contracts, commitments, and reference prices.
 - b. Internal oversight system: The goal here is to ensure effective and efficient preparation and execution of procurement, while preserving the new systems' transparency. Accordingly, control-related features will be incorporated to protect the quality of the public information. Controls will have to be devised for data entry, security and custodianship of the processed data, including electronic data processing and authorizations systems.
 - c. Dissemination and training of the private sector: The purpose of this component will be to publicize the new procurement system among small- and medium-sized businesses in the private sector through training activities (ranging from awareness programs to actual instruction), workshops and seminars. The subjects will include such areas as the new regulations on procurement, procedures, processing, requirements, procedures and operation of the new data processing systems that the new system will develop.

- d. Adaptation and introduction of the data system and database on government procurement: The goal of this component is to recast the way in which procurement is managed by making use of the most advanced technology available. The new system will be able to retrieve and generate files related to bidding announcements, decisions, and relevant contract data, amendment notifications and bidding conditions. It also includes data entry and make information available on the Internet. With that, agents of the economy will be better able to access data on the various stages of procurement processes.

III. COST AND FINANCING

- 3.1 The cost of this operation is **US\$22.5 million**. The Bank would lend 80% of this amount with resources from the Fund for Special Operations, in accordance with the current provisions and under the conditions specified below:
- Amortization and grade periods:** a period of amortization of 40 years, starting as of the date on which the contract is signed, and a 10-year grace period.
 - Interest rate:** 1% during the grace period and 2% thereafter.
 - Credit fee:** 0.5% of the undisbursed balance of the financing. The credit fee will begin to come due 12 months from the date of the Board of Executive Director's resolution and will be paid in United States dollars on the same day the interest is paid.

TABLE 2 – BUDGET ESTIMATE
(in US\$ thousand)

Investment category	IDB	Local contribution	Total	%
Administrative management	1,670.8	131.5	1,802.3	
Consulting services	1,546.8		1,546.8	8
Additional support personnel		131.5	131.5	
Equipment	124.0		124.0	
Project inspection	7,973.2	3,416.0	11,389.2	51
Consulting services	7,768.0	2,650.4	10,418.4	
Additional support personnel		501.6	501.6	
Equipment	205.2		205.2	
Infrastructure expenditures		264.0	264.0	
Management support	6,645.0		6,645.0	29
Consulting services	6,524.0		6,524.0	
Equipment	121.0		121.0	
Development and introduction of training		812.5	812.5	4
Consulting services		651.0	651.0	
Equipment		161.5	161.5	
PPF	630.0		630.0	3
External auditing	250.0		250.0	1
Final evaluation	100.0		100.0	0
Subtotal:	17,269.0	4,360.0	21,629.0	
Financial expenses	731.0	140.0	871.0	4
Interest	551.0		551.0	
Credit fee		140.0	140.0	
Inspection and supervision	180.0		180.0	
Total:	18,000.0	4,500.0	22,500.0	100

- 3.2 Summarizing, the loan will fully finance the component for management support, the consulting services and equipment of the executing unit, repayment of the funds from the project preparation facility, the external audits, the final evaluation, compounding of interest and the inspection and supervision commission. It will partially finance the consulting services and training team for the project inspection and training components. The local contribution, which may include grants of external cooperation from agencies or other countries, will finance a portion of the consulting services associated with the project inspection and training components, all expenses associated with additional support personnel, and the credit fee.
- 3.3 At the present time, the government has a USAID grant of US\$1 million and a letter of intent from the Government of Austria for US\$500,000. Other potential co-financiers have been identified so that these contributions represent at least 20% of total program cost. Any additional financing received over and above that 20% figure would be used to expand the scope of the operation or in lieu of Bank financing.

IV. ENVIRONMENTAL CONCERNS

- 4.1 The operation's environmental feasibility is assured by the following environmental protection measures, with particular emphasis on the civil engineering standards for earthquake resistance: (a) the procurement inspections will cover technical issues, including environmental requirements such as licenses and impact studies; (b) in the component for procurement management support, the consulting services for preparation of standard documents will make the environment a concern in every procurement and contract; (c) the programs under the component for development and introduction of training in procurement will cover environmental matters within the agencies' competence. These measures will be included in the contracts' terms of reference and are in response to the recommendations that CESI made at its 18 January 2000 meeting.

V. EXECUTION

A. Borrower and executing agency

- 5.1 The borrower will be the Republic of Nicaragua, while the executing agency will be the Technical Secretariat of the Office of the President, which will coordinate with the MHyCP Procurement Office for the duration of the operation. A small executing unit will be formed in SETEC for routine administrative matters. The decree creating the unit is being processed and is expected to enter into force before the operation is considered by the Board of Executive Directors.
- 5.2 The government designated SETEC to be the project's executing agency. In the effort that the Nicaraguan government is making to streamline the public sector and, with Law 290, to make it more efficient, it decided to create secretariats to support the Office of the President. SETEC's mandate is to coordinate the macroeconomic program and structural reforms and analyze and promote the symmetry of economic and social policies. SETEC thus becomes the focal point of technical analysis and inter-ministerial coordination. Its rank and authority must match these functions.
- 5.3 Under the Procurement Act, the Procurement Office has important responsibilities vis-à-vis procurement. Under that law, it has been given a number of new functions to discharge in the near term and for which it does not presently have either the technical capacity or sufficient experience.

B. Executing unit

- 5.4 The executing unit will carry out the operation, including the attendant procurement of goods and contracting of consulting firms. The unit was created by decree and the following is required of it:
- a capacity to advertise and conduct competitive bidding processes, to contract services, supervise and coordinate them, and receive and approve procurements on the State's behalf;
 - the means to administer the operation's resources, establish the bank accounts needed to that end, carry the corresponding records and prepare the reports required of it;
 - competence to coordinate the measures recommended by the consulting services;
 - preparation of periodic progress reports;

- development and implementation of publicity and information programs;
- competence to process disbursement requests with the Bank;
- throughout execution, ever tighter coordination with the MhyCP Procurement Office in respect of the functions that the law assigns to the Procurement Office.

5.5 To ensure that the executing unit functions properly and considering the complex activities it will be called upon to perform, it will need a set of operating regulations stipulating how these functions are to be performed. A condition precedent to the first disbursement is that the regulations will be in force.

5.6 The executing unit will have the following: two coordinators (one international and another local). They will be advised by two procurement specialists, a training specialist and a financial specialist, as well as two support associates. As needs dictate, short-term consultants will be added for specific activities. Using resources from a PPF operation (loan 1062/SF-NI), the basic staff is being hired to set up the unit, so that preparation of the operation can continue and headway can be made in fulfillment of the conditions precedent to the first disbursement. Before hiring those consulting services, the executing unit will submit the corresponding terms of reference to the Bank for approval.

C. Execution of the components

1. Project inspection

5.7 For this component, international competitive bidding will be used to retain the services of a consulting firm of recognized international standing. The executing unit will select and hire that firm according to the terms of reference that the Bank and the government mutually agree upon and that are referred to the Group of Five for consultation. The decree creating the executing unit ensures that the consulting firm has what it needs to perform its work. In this respect:

- a. The participating agencies must give the consulting firm unfettered access to all technical, legal, administrative and financial documentation associated with the projects and processes being inspected; the consulting firm will be permitted to make copies of those documents and will not be required to give prior notification of the inspections it plans to make;
- b. The consulting firm may take samplings and check measurements or request that supervisors or public works contractors take those samplings or measurements;
- c. The consulting firm will be free to conduct any kind of exercises or do any technical testing in the course of its inspections;

- d. Should any agency executing a project refuse to hand over documentation requested by the consulting firm as part of its inspection or in any way obstruct that inspection, the executive branch of government, by way of SETEC, will take all necessary steps to enable the consulting firm to perform its functions.
- 5.8 The universe from which the consulting firm will take the representative samplings of the processes it will inspect will be established as follows: (i) an initial portfolio, consisting of all procurement in process at the time the contract is signed, from a list that the executing unit will supply to the firm at that time. The list is to specify the stages the transactions are at as of that date; (ii) a subsequent portfolio, made up of all the procurement processes for every project or program that, once approved, involve preparatory activities during the 24-month period following the date on which the consulting firm's services begin. Every month, the executing unit will provide the consulting firm with a list of those projects.
- 5.9 After its first 24 months of service have been completed, the consulting firm will continue to provide those services, under identical terms and conditions, until all the procurement processes being inspected have been completed, or until it has completed its 48th month of service, whichever comes first. The consulting service's plan of execution will specify the method it will use to do the inspections. That plan should cover all phases of procurement, from planning and original budgeting, through to full execution and final delivery of the goods, works or services. The method must ensure that all processes can be inspected while being planned and executed, at either all or some stages, and one or more times.
- 5.10 The selection and inspection method will ensure that the consulting service's work covers a representative sample of all purchases and contracts that public agencies transact. The consulting firm will do its inspection without interfering with project or program execution. Its inspections will be independent, and will not supplant the audit and control procedures of either the project-execution units or the country's oversight agencies. Nor will those inspections be bound by any standards and procedures that lending and/or donor countries or agencies may require. The reports of the consulting firm that does the inspections will, strictly speaking, have no effect in law. The consulting firm will present its reports to the executing unit, which will follow up on the findings, as indicated in paragraphs 5.12 to 5.13.
- 5.11 Finally, to effect a proper transfer of technology and train the appropriate local personnel, a consulting firm's terms of references will stipulate that one of its responsibilities will be to train the staff in charge of supervising and overseeing internal regulation of government procurement, which will be the follow-through for the inspection activity.
- 5.12 **Reports.** The consulting firm will present an inspection report every time it completes an inspection, regardless of what the findings are, what the subsequent

measures are and whether those initial reports are included in the corresponding periodic reports. The reports are to contain at least the following:

- name of the program or project inspected
- identification of the procurement or contracting process inspected
- previous objectives and scope of the inspection
- findings of the inspections
- recommendations

- 5.13 The operating regulations will stipulate the procedures that for the inspection reports to be required to be immediately transferred by the executing unit to the agency responsible for the inspected process and, if deemed advisable, to the respective contractors. The executing unit of the inspected project and, as appropriate, contractors, may send their comments, objections or rejoinders to the consulting firm within 15 (fifteen) calendar days of receiving those reports. The consulting firm will submit its final inspection report to the executing unit within 15 (fifteen) calendar days of receiving any comments, objections, or rejoinders. Those final inspection reports will contain all necessary background information and the consulting firm's final recommendations. The findings of the final reports will be conveyed by the consulting firm concurrently to the executing unit and the Procurement Office. For purposes of public disclosure, the Procurement Office will enter the reports into the Data Registry and if necessary will take the measures prescribed according to the applicable national legislation. The terms of reference for the consulting firm will stipulate that the final reports must objectively indicate the findings and make the necessary recommendations with respect to procurement procedures.

2. Management support component

- 5.14 Given the nature of the problems identified in the institutional diagnostic studies, it is recommended that two consulting firms be selected for this component, through international tendering. Using the terms of reference that the Bank and the government mutually agree upon, the executing unit will select and contract those firms: one to assist the agencies participating in this operation, listed in Section II of the document; and the other to assist the MHyCP Procurement Office. The consulting services will be concentrated in the first 24 months and will be gradually phased out. To ensure that this component is carried out properly, the decree creating the executing unit will ensure that the firms are afforded the conditions necessary to perform their work.

- 5.15 The first of the consulting firms will help the participating agencies launch and, if need be, put together the various procurement units. It will also provide technical assistance for better preparation and management of procurement procedures at each agency, taking the latter's distinctive characteristics into account. The thinking was that it would be best to hire just one consulting firm for these functions, as this would help the executing unit follow-up and make it easier to preserve the uniform support criteria that a single managerial structure would guarantee.
- 5.16 The second consulting firm will assist the MHyCP Procurement Office with standards, operations, and personnel training in the area of procurement. The PPF operation mentioned above is supporting the development of the legal frame of reference (guides, manuals, model bidding documents and contracts, etc.).
- 5.17 Before the activities of this component are undertaken at any given agency, SETEC, the MHyCP and the respective agency must conclude a mutual cooperation agreement, the minimum terms of which will be as follows: each participating agency will provide the consulting service with the physical space it needs to perform its services; the agency will designate a high-ranking official to serve as nexus with the consulting firm; it will appoint the procurement personnel who will work with the consulting firm and give it their full cooperation to ensure the success of the endeavor; the agency will also maintain high-level dialogue with the consulting firm; the agency will cooperate in the execution of the other program components, including the project inspection component, to which end it will provide any information or documents the executing agency, the Ministry of Finance or the consulting firms may request for program execution. The conclusion of such agreements will be a special pre-condition for commencement of the activities that the management component involves at the agency in question.

3. Training component

- 5.18 Under this component, a consulting firm will be contracted to support the Procurement Office, which by law and as the unit regulating the procurement system, is responsible for the training. That firm will be selected and hired based on the terms of reference that the executing unit, the MHyCP and the Bank mutually agree upon. Its mission will last 24 months.
- 5.19 To carry out this component, SETEC and the MHyCP will conclude an agreement that must stipulate, at a minimum, the responsibilities of the Procurement Office in respect of:
- a. Designating future trainers, who will receive the first instruction;
 - b. Providing the physical facilities that the initial training of instructors and the instruction planned under the training program will require;

- c. Providing the physical space for the administrative work associated with the training plan;
 - d. Naming the support staff for administrative matters;
 - e. Pledging an item in the budget to ensure the plan's sustainability;
 - f. Circulating the following among government sectors: (i) the annual training plan; (ii) the evaluations of the various training activities conducted; and (iii) a list of the functions in which personnel were trained and evaluated;
 - g. Promoting training activities for the private sector, depending on the surplus resources available and for which a fee to compensate for costs can be charged.
- 5.20 The conclusion of this agreement will be a condition precedent to the first disbursement from this component.

D. Administration of resources from donors

- 5.21 This operation will be co-financed with contributions from cooperation agencies and donor countries in the international community, which will confirm their intention to participate in the financing in a written communication sent to either the Government of Nicaragua or the Bank (a letter of intent) specifying the amounts they will contribute. The Bank will establish a special account to administer the resources from these sources. Each donor and the Bank will conclude an agreement so stipulating. Letters of intent have now been received or a contract between the government and the donor countries signed for the equivalent of at least US\$1.5 million. The conclusion of the donor agreements between the Government of Nicaragua and the donors and the corresponding administration agreements between the cooperating parties and the Bank, for the equivalent of at least US\$4.5 million, will be a condition precedent to the first disbursement from the loan.
- 5.22 Because the international community is expected to take active part in co-financing the operation, the Government of Nicaragua and the Bank will periodically (tentatively every six months) invite members of the participating countries and institutions to attend meetings to monitor execution of the operation. The authorities of the Government of Nicaragua, the donors and the Bank will name the meetings' participants. The Government, in coordination with the Bank, will suggest the venue and date for the meeting. The final place and date will be decided by mutual agreement.

E. Procurement of goods and consulting services

- 5.23 International competitive bidding will be mandatory when the procurement is worth US\$250,000 or over. No contracts for public works are planned under this

operation. Procurements worth less than US\$250,000 will, in principle, be made in accordance with Nicaraguan law. International competitive bidding will be required to select and contract consulting services when the contracts are worth US\$200,000 and over.

- 5.24 For the evaluation of bids under the inspection component, the procedure of hiring based on quality and price will be followed (document GN-1679-4 of 7 December 1999). The relative weight of price may not exceed 20%. Accordingly, the weight given to technical or quality considerations must be no less than 80%. This proposed procedure is justified because: the service to be provided is not unusually complex; the services will not have a serious impact; and, given the nature of the services, the bids are likely to be similar in quality.
- 5.25 The procedure of hiring based on quality and price, which has been agreed upon with the borrower, is defined as follows: (a) price will be an evaluation criterion; (b) two sealed envelopes will be presented. The first envelope will include the technical proposal without prices and the second, a price quotation for the services. The hiring agency will review the technical proposal and will rank the bidders according to merit. Once the ranking has been establishing, the hiring agency will proceed to:
- i) Notify the firms whose technical proposals did not receive the minimum rating necessary or did not meet the criteria for prequalification and have been not qualified, to which firms the second envelopes will be returned unopened;
 - ii) Notify the firms that received the minimum rating necessary that they have been prequalified, indicating the place, date, and time of the public ceremony at which the price quotation envelopes will be opened. The envelope opening ceremony must be held at least two weeks after the date of the official notification.
 - ii) Open the price quotation envelopes at a public ceremony, in the presence of representatives of the firms that wish to attend. When each envelope is opened, the bids will be read out loud and notes will be taken on the name of the participants, the quality rating their bids obtained, and the prices they quoted. A copy of the notes will be forwarded to the Bank. Minutes will be drawn up on the ceremony and will also be forwarded to the Bank.
 - iv) Calculate the total score by adding the weighted points with respect to quality (80%) and price (20%). The consulting contract will be offered to the consulting firm with the highest score.

F. Period of execution and disbursements timetable

- 5.26 The disbursement period will be four years, plus another six months for the resources earmarked for the final audit and evaluation. Those time periods are considered reasonable to complete the proposed activities and disburse the

resources and will begin as of the date on which the contract takes effect. The tentative disbursements timetable appears below:

DISBURSEMENTS TIMETABLE
(in US\$ millions)

Component	Year 1	Year 2	Year 3	Year 4	Total
Administrative management	0.5	0.5	0.4	0.4	1.8
Project inspection	3.0	2.9	2.8	2.7	11.4
Management support	3.1	3.1	0.4	-	6.6
Development and introduction of training	-	0.6	0.2		0.8
Others	0.8	0.2	0.2	0.7	1.9
Total	7.4	7.3	4.0	3.8	22.5

G. Supervision, reports and evaluation

5.27 The Bank will oversee execution of the operation through its field office in Nicaragua, which has been scaled up for this operation with the addition of a full-time consultant, a specialist in procurement, and technical supervision missions run by the project team. The purpose of those missions will be to examine the progress made toward accomplishing objectives and goals, meeting timetables and the contingencies of execution, all based on the annual work programs described below.

5.28 **Work programs.** In the initial report, described below, and again at the start of each year of execution, the executing unit will prepare an annual work program and then update it every year. Those annual programs will be the basic guidance used by the technical supervision missions.

5.29 The executing agency will present the following reports to the Bank:

- a. **An initial report**, as a condition precedent for the first disbursement. This report will include: an annual work program, prepared on the basis of a model previously agreed upon with the Bank. The work program for the first year will be detailed and will cover, *inter alia*, the performance indicators, the terms of reference for the main consulting firms, the content of the training courses and the goals and timetables expected to be met that year; at the end of each year the program for the previous year will be reviewed and the one for the following year will be prepared, based on the progress achieved and the indicator performance.
- b. **Six-month progress reports**, briefly describing progress during the previous six months (report); the results achieved with the performance indicators;

identification and explanation of misses; proposals for possible changes; a list of purchases made, of training courses held and of the major contracts let;

- c. **A final report**, which will contain, at a minimum, the results, the principal obstacles to execution, lessons learned and recommendations.

H. Performance indicators

- 5.30 A set of performance indicators will be identified to properly track execution, including verification of objectives and goals, attached as Annex II for illustrative purposes. The indicators for the inspection component will be identified in year two, at which time there will be a solid foundation on which to base the indicators in terms of such quantitative goals as reductions in bidding procedure times, cost reductions, improved agency management, positive perceptions on the part of the public, and increased participation by public- and private-sector stakeholders. The performance indicators are to be prepared by the executing agency and presented to the Bank for approval in the initial report to be submitted as a condition precedent to the first disbursement.

I. External auditing

- 5.31 In keeping with accounting practices, the executing agency will establish and maintain the operation's accounts and ledgers, which will be audited at the close of each fiscal year by an independent accounting firm acceptable to the Bank. The financial statements will be submitted within the first 120 calendar days following the close of the fiscal year. The costs of this external auditing will be charged to the loan.

J. Final evaluation

- 5.32 Because this operation is innovative for both the Nicaraguan government and the Bank, a final impact evaluation has been planned and will be closely linked to the performance indicators, benefits and risks of the program. It will be carried out once at least 90% of the resources from the loan have been disbursed. SETEC will prepare the terms of reference for the consulting firm that will do the final evaluation, and the Bank will approve them. Accordingly, the funds needed to conduct that final evaluation have been included in the budget.

K. Revolving fund

- 5.33 The resources disbursed for a revolving fund are to be managed by the executing unit in a separate, special bank account in the name of this operation. Within sixty (60) days of the close of each calendar six-month period, six-month reports are to be presented indicating the situation of those funds that the executing agency has.

VI. JUSTIFICATION, BENEFITS, AND RISKS

A. Justification

- 6.1 The present operation is justified because it responds to the country's pressing need in the post-Mitch period, which is to improve management of government procurement and to establish another control mechanism to handle the increasing volume of procurement that the hurricane has necessitated. In the long term, it will be an integral part of the country's transformation program, as it provides a more profound, permanent change in the area of contracting and establishes a more solid base for application of a more stable institutional framework that includes the government Procurement Act, the integrated financial management and auditing system and the single fiscal account. This operation assists the Nicaraguan government with implementation of the new Procurement Act, as amended in June 2000, since it articulates clear principles of efficiency, disclosure and transparency and free and equal competition.
- 6.2 In this connection, the Nicaraguan government has expressed its commitment to this operation on a number of occasions. In 1998, in the immediate aftermath of Hurricane Mitch, Nicaragua requested the United States government's support to undertake a transparency project that included government procurement. Then, in September 1999, it requested the Bank's assistance for a national program for efficiency and transparency in government procurement. In May 2000, the cabinet and the council of economic and social development -composed of the various branches of government, the private sector, the community of donors that reside in Managua and civil society- were informed of the project's content and scope for a second time. Finally, at the Consultative Group meeting in Washington in May of this year, where transparency was the core theme, the government expressed its support once again.
- 6.3 As the international community emphasized at the recent meeting of the Consultative Group, it continues to be profoundly concerned over the fate of its contributions, over accountability in the administration of resources and over the absence of a proper control system to ensure efficiency and transparency. It also underscored the importance of the program for efficiency and transparency in government procurement, which the Government of Nicaragua had requested from the Bank. The international community believed the program would do much to improve transparency.

B. Benefits

- 6.4 The operation will help strengthen and launch the procurement system, taking into account the mandates of Law 323 and its subsequent amendment, particularly as regards its organization, the internal oversight system, the institutional resources of

the principal government agencies and training for personnel involved, including the private sector if it requires it. This should make the government procurement system more efficient and transparent and improve public confidence in it.

- 6.5 It also furthers the decentralization underway in procurement, because it helps transfer authority to municipal governments with the ultimate goal of achieving a structured system and controlled use of resources.
- 6.6 The greatest savings will be achieved by reducing the time the tendering procedures now take, reducing the attendant costs and introducing improvements in the institutions' management by planning their purchases, upgrading technical specifications, and training the staff involved in both the public and private sectors. The various public and private agents that participate in the competitive bidding will be helped by the computerization of data with the information-technology component and by the improved efficiency, disclosure and transparency that will result from the assistance that the operation will provide to develop the new legal system that embodies the principles in question.
- 6.7 As the improvements in these areas are achieved and progress is made with decentralization, efficiency and transparency will improve and public confidence will grow. The opinion that the public and the international community have of the competitive bidding conducted in the country will improve. If donors have a positive view of the tendering processes, the increased external resources that the country needs will invariably follow.
- 6.8 Finally, stronger capacities for internal oversight and management of procurement will provide the means to handle the increased volume of procurements that the country's rebuilding requires. The bases will be established for the new procurement system, for the institutionalized training structure to supply the needed support staff support, and for a sustainable training mechanism.

C. Risks

- 6.9 Operations with features of this kind generally involve leadership-related risks: the leadership to introduce the measures that such an operation involves; the leadership that is to come from the upper and middle echelons. To lower these risks, the Government of Nicaragua has made this operation a top priority, as evidenced by the commitments to the program, which include agreements with the IMF, which are part of the comprehensive poverty reduction strategy (ERRP) to make some of the pivotal events in this operation preconditions for reaching the Heavily Indebted Poor Countries (HIPC) Initiative decision point.
- 6.10 To reduce the risks associated with the operation, an agreement was reached with authorities to make the Technical Secretariat of the Office of the President of the Republic the executing agency. SETEC is an advisory body whose projects include

important reform programs. It has the capacity needed to conduct the activities planned under the operation and to provide the leadership that they will require.

- 6.11 For the operation to be carried out, financial support will be needed from the donor community. At the Consultative Group meetings held in Stockholm in May 1999 and in Washington D.C. in May 2000, the international community expressed its support for the program, as it will help improve procurement efficiency and transparency. As mentioned in paragraph 5.21, the donor community has already expressed interest in contributing a total of US\$1.5 million. Nevertheless, the formalities for approval and implementation of the cofinancing and respective administration agreements may cause delays in program execution. The borrower has committed to providing resources from the National Budget if necessary to supplement program financing. However, given current fiscal constraints, it may not be feasible for contributions from the National Budget to be made on a timely basis if donor resources prove insufficient, presenting a risk for program execution. To mitigate this risk, as a condition precedent to the first disbursement of the proposed loan, grant agreements must be signed by the Government of Nicaragua and the donor agencies and the respective administration agreements by the donors and the Bank for the equivalent of at least US\$4.5 million in total grants.

**PROGRAM FOR EFFICIENCY AND TRANSPARENCY
GOVERNMENT PROCUREMENT
NI-0143**

**Procurement Plan
(in thousands of dollars)**

Major procurements	Amount	Financing IDB LC		Modality	Pre- qualification	Possible dates (quarter)
1. PROJECT INSPECTION						
1a. Consulting firms	11,184	7,768	3,416	ICB	YES	4 th quarter
1b. Equipment (average procurement US\$12,000)	205	205		LCB	NO	2000
2. SUPPORT FOR PROCUREMENT AND CONTRACT MANAGEMENT						
2a. Consulting firms	6,524		6,524	ICB	YES	4 th quarter
2b. Equipment	121		121	LCB	NO	2000
3. DEVELOPMENT AND INTRODUCTION OF TRAINING						
3a. Consulting firms	476		476	ICB	YES	2 nd quarter
3b. Consulting firms	100		100	LCB	NO	2001
3c. Individual Consultants (average contract US\$15,000)	75		75	CSP	NO	
3d. Equipment	162		162	LCB	NO	
4. PROGRAM ADMINISTRATOR						
4a. Individual Consultants (average monthly contract US\$14,000)	1,399	1,226	173	CSP	NO	3 rd quarter 2000
4b. Equipment	124	124		LCB	NO	

Abbreviations:

CSP Competitive selection procedure

ICB International competitive bidding

LC Local contribution

LCB Local competitive bidding

**PROGRAM FOR EFFICIENCY AND TRANSPARENCY
IN GOVERNMENT PROCUREMENT
(NI-0143)**

Program Performance Indicators

COMPONENT	INDICATOR	YEAR 1	YEAR 2	YEAR 3	YEAR 4
PROJECT INSPECTION	The indicators for the inspection component will be identified in year 2, at which time there will be a solid foundation on which to base quantitative indicators (see paragraph 5.30).		✓	✓	✓
MANAGEMENT SUPPORT	<ul style="list-style-type: none"> • Preparation and implementation of the Operations Manual, standard bidding documents • Procurement Units in each agency established and operational, with standardized procedures • Reduced procurement processing times • Reduced costs of goods and contracts for works and other services • Improved budget performance • Increased number of private companies submitting bids 	✓	✓		
TRAINING	<ul style="list-style-type: none"> • Training Unit established • Number of trainers trained • Number of staff trained 	✓ 12 130	12 150	15 200	15 210

PROPOSED RESOLUTION

NICARAGUA. LOAN ____/SF-NI TO THE REPUBLICA DE NICARAGUA
Program for Efficiency and Transparency in Public Sector Procurement and Contracting

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 República de Nicaragua, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Program for Efficiency and Transparency in Public Sector Procurement and Contracting. Such financing will be for the amount of up to US\$18,000,000, or its equivalent in other currencies, except that of Nicaragua, which are part of the resources of the Bank's Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.