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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

NICARAGUA

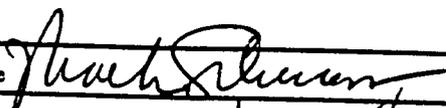
PROJECT PAPER

FINANCIAL MANAGEMENT REFORM

AID/LAC/P-883

PROJECT NUMBER: 524-0330

UNCLASSIFIED

Agency for International Development PROJECT DATA SHEET				1. Transaction Code [A] A = Add C = Change D = Delete		Document Code 3			
2. Country/Entity <p style="text-align: center;">Nicaragua</p>				3. Project Number <p style="text-align: center;">524-0330</p>					
4. Bureau/Office <p style="text-align: center;">USAID/Nicaragua</p>			[05]	5. Project Title <p style="text-align: center;">Financial Management Reform</p>					
6. Project Assistance Completion Date (PACD) MM DD YY 05 31 98				7. Estimated Date of Obligation (Under "B" below, enter 1, 2, 3, or 4) A. Initial FY 94 B. Quarter (1) C. Final FY 97					
8. Costs \$000 or Equivalent \$ 1 = C\$6.5									
A. Funding Source		Firm FY			Life of Project				
		B. FX	C. L/C	D. Total	E. FX	F. L/C	G. TOTAL		
AID Appropriated Total		780	13	793	4,325	75	4,400		
(Grant)		(780)	(13)	(793)	(4,325)	(75)	(4,400)		
(Loan)									
Other		1.							
U.S.		2.							
Host Country									
Other Donor(s)									
TOTALS		780	13	793	4,325	75	4,400		
9. Schedule of AID Funding (\$000)									
A. Appropri- ment	B. Primary Purpose	C. Primary Tech. Code		D. Obligations to Date		E. Amount Approved This Action		F. Life of Project	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) DA	N/A	N/A				4,400		4,400	
(2)									
(3)									
(4)									
TOTALS						4,400		4,400	
10. Secondary Technical Codes (maximum 6 out of 9 positions code)							11. Secondary Purpose Code		
N/A							N/A		
12. Special Concerns Codes (maximum 7 out of 4 positions code)									
A. Code	N/A								
B. Amount									
13. Project Purpose									
To improve government effectiveness and ability to plan, administer and control public resources and thereby reduce the potential for fraud, waste and abuse.									
14. Schedule Evaluations					15. Source/Origin of Goods and Services				
Interim	MM	YY	Final	MM	YY	[X] 000	[] 941	[X] Local	Other (specify) _____
	06	96		10	97				
16. Amendments/Notice of Change Proposed (This is page 1 of a ___ page FY Amendment)									
Approved by	Signature 				DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W DOCUMENTS. DATE OF DISTRIBUTION				
	Title: Director USAID/Nicaragua		Date Signed: 3/27/94						

Project Authorization

Country: Nicaragua
Project: Financial Management Reform
Number: 524-0330

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Financial Management Reform Project (FMRP) for Nicaragua involving planned obligations not to exceed four million, four hundred thousand dollars (\$4,400,000) in Development Assistance grant funds over a period of four years from the date of the Project Agreement, subject to the availability of funds in accordance with the AID/OYB allotment process. The planned life of the Project is four years from the date of initial obligation.

2. The FMRP will provide technical assistance and training for the design and installation of an integrated financial management system and comprehensive audit system. Key to the activities of the Project is the timely establishment of an Integrated Financial Management System (IFMS) Executive Committee and Technical Secretariat, which will coordinate all related activities. Three other crucial components of FMRP are support for the design and installation of an accounting subsystem for provision of reliable financial data, support for the establishment of a comprehensive auditing system (CAS), and related training and public awareness. These activities, in conjunction with IFMS support from other donors, are crucial steps in fostering governmental accountability, transparency, and efficient, effective use of public resources.

3. Commodities financed by A.I.D. under the FMRP shall have their source and origin in the United States, Nicaragua, and Central American Common Market Countries (CACM), except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States, Nicaragua, or CACM as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on U.S. flag vessels.

4. The host country contribution to Project expenses has been waived and the justification for such a waiver is attached to the Project Paper.

5. Conditions Precedent to Disbursement: Disbursement of funds under FMRP will be subject to Government of Nicaragua (GON) fulfillment of the following conditions precedent:

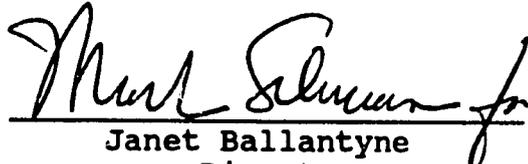
- A. Evidence that the Project Grant Agreement has been duly ratified by, and executed on behalf of, the GON and that it constitutes a valid and legally binding obligation of the GON in accordance with its terms; and
- B. A statement of the names of the persons holding or acting in the position empowered to act on behalf of the GON for all purposes relevant to the grant and of any additional representatives, together with the specimen signatures of each person specified in such a statement.

6. Covenant

The Parties agree to establish an evaluation program as part of the Project. Except as the Parties may otherwise agree in writing, the program will include, during the implementation of the Project:

- (a) Evaluation of progress toward attainment of the objectives of the Project;
- (b) Identification and evaluation of problem areas or constraints which may inhibit such attainment;
- (c) Assessment of how such information may be used to help overcome such problems; and
- (d) Recommendations on adjustments to Project activities.

7. USAID will implement these activities pursuant to a Project Grant Agreement with the GON and subsequent amendments thereto.

 5/27/74

Janet Ballantyne
Director
USAID/Nicaragua

Drafted: PDIS: THarris T. Harris Date: 5/2/94
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Clearances:		
PDIS:LOdle	<u>LOdle</u>	Date: <u>5/2/94</u>
RLA: MVelazquez	<u>MV</u>	Date: <u>5/2/94</u>
PEPS: TAmari	<u>TA</u>	Date: <u>5/2/94</u>
CO: MKenyon	<u>MK</u>	Date: <u>2/5/94</u>
OFIN: RLayton	<u>RL</u>	Date: <u>12/14/90</u> <u>RL</u>
DIR: MSilverman	<u>MS</u>	Date: _____

NE
5-3-94

FINANCIAL MANAGEMENT REFORM PROJECT
PROJECT NUMBER 524-0330

THIS PROJECT PAPER COMPLIES WITH CURRENT AGENCY GUIDELINES ON THE METHODS OF FINANCING AND IMPLEMENTATION AND HAS PROVIDED FOR ADEQUATE AUDIT COVERAGE IN ACCORDANCE WITH THE PAYMENT VERIFICATION POLICY IMPLEMENTATION GUIDANCE.



RICHARD W. LAYTON
CONTROLLER

Ans. MB

DATE: 05/04/94

**Financial Management Reform Project
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List of Acronyms, Abbreviations and Foreign Terms

CAP	Comprehensive Auditing Process
CAS	Comprehensive Auditing System
DIGEPRES	GON Office of Budget in the Ministry of Finance
FMRP	USAID/N Financial Management Reform Project
GON	Government of Nicaragua
IDB	Inter-American Development Bank
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
INCAE	Central American Institute for Business Administration
INSSBI	Nicaraguan Social Security
LAC	Latin America and the Caribbean
LAC/RFMIP I	Latin American and Caribbean Regional Financial Management Improvement Project Phase I
LAC/RFMIP II	Latin American and Caribbean Regional Financial Management Improvement Project Phase II
MEC	GON Ministry of External Cooperation
MIFIN	GON Ministry of Finance
OCG	GON Office of the Comptroller General
PACD	Project Assistance Completion Date
PIL	Project Implementation Letter
PM	Person Months (work time for individuals)
PSC	Personal Services Contractor
SIMAFAL	Conceptual Framework of Financial Management and Control
STRATAC	Long-Term Strategy for Implementation of SIMAFAL
TA	Technical Assistance
UNDP	United Nations Development Programme
8-(a)	Small Business Administration Managed Contract with a Minority Owned Firm

I. Executive Summary

A. Background

During the eleven year period of Sandinista rule prior to the election of 1990, mismanagement in government, war, economic embargo, and political polarization seriously eroded the basic institutions, infrastructure, values, and policy framework necessary for economic and political development in Nicaragua. The new government faces severe development problems both because of the degree and scope of deterioration in both the public and private sectors and because of the added difficulties of moving from a centrally planned and state-dominated economy to a democratic/free market orientation.

Nicaragua lacks consensus regarding democratic values critical to widespread acceptance of decision-making processes, representative institutions, access to information, government accountability, and basic civil and property rights. In order to implement democratic principles within the government, i.e. government accountability, it will be necessary to undertake a large-scale program of reforming the public administration which executes the government's policies. Implementation of an integrated financial management and comprehensive auditing system is a basic step in fostering government accountability because it can provide the transparency and attest functions which lead to more effective and efficient governance. Both the Ministry of Finance and the Office of the Comptroller General have expressed their desire to achieve not only more control of public finances, but to improve the administrative conditions which impact on financial resource management. An assessment of the Government of Nicaragua's (GON's) financial systems was carried out, sponsored by USAID/Nicaragua, which concludes that to achieve improvement in financial resource management a long-term, multi-donor effort will be necessary. Therefore, this project was developed to provide a clear vision of what an integrated financial system is, what it can do, and what the necessary legal structure consists of. This approach will enable the Government of Nicaragua to accept and adopt the reforms required to improve the current "system". This project will help establish an overall Integrated Financial Management System (IFMS) and Comprehensive Audit System (CAS), within which any and all financial management improvement projects will fit. The IFMS/CAS framework interfaces with four basic financial management subsystems; accounting, budgeting, treasury, and debt management. Other financial management subsystems can be integrated into the framework over time.

Full implementation of the IFMS is dependent upon the performance of key activities by the GON, World Bank, and InterAmerican Development Bank (IDB), in conjunction with this project. This project establishes the framework necessary to fully implement the IFMS and CAS. The World Bank is planning an IFMS project, in collaboration with USAID and the GON, on budget reform activities. The IDB is also planning an IFMS project, focusing on Treasury, debt management, procurement, and customs reform activities.

B. Project Description

The goal of the Financial Management Reform Project (FMRP) is to promote greater consensus within Nicaragua on democratic values, including accountability and professionalism in government service. The purpose of this four year project is to improve government effectiveness and ability to plan, administer and control public resources and thereby help reduce the potential for fraud, waste, and abuse. This will be achieved through the adoption of the IFMS and CAS concept and its subsequent implementation, which will contain the requisite checks and balances to reasonably ensure adequate accountability over GON resources.

The project consists of four components, outlined as follows.

1. The Framework for an Integrated Financial Management System

This component will provide the necessary support for the establishment of an Executive Commission (made up of the Minister of Finance and Comptroller General). The Executive Commission will establish a Technical Secretariat as its operational unit to design, install, and implement the government-wide IFMS. The role of the Executive Commission is to adopt and promote the legislation necessary to issue a Code of Financial Management based on an integrated system of financial management and comprehensive audit. Through the project, technical assistance will be provided to the Executive Commission, the Technical Secretariat and other GON agencies in producing the IFMS and appropriate legislation to ensure the continuation of project activities. An estimated 36 person months of long-term technical assistance will be provided to implement this component.

2. Implementation of the Accounting Subsystem

Accounting is recognized as the integrating element of the IFMS. This component will focus on designing, installing and implementing an accounting subsystem within the Ministry of Finance, providing a common, reliable data base to and from which all financial data flows, and enforces standards for recording and reporting on all financial information. An estimated 36 person months long-term and 31 person months of short-term technical assistance will be provided to implement this subsystem.

3. Implementation of the Comprehensive Audit System

The CAS will be established and implemented so that a professional and independent opinion through the Office of the Comptroller General (OCG) or contracted auditing firm can be expressed on whether the GON has obtained appropriate value for monies invested; whether revenues have been collected and deposited intact; whether assets are adequately protected; and whether the financial statements and other financial data are fairly presented. CAS will establish applicable standards for both external and internal auditing of the GON. The Comprehensive Audit System will also help to assure that plans are executed with

management authorization, in accordance with the policies and programs of the government, in an effective, efficient and economic manner. This will promote public confidence in a democratically elected government. This component will provide an estimated 36 person months of long-term technical assistance and 25 person months of short-term technical assistance for establishing this function and additional assistance in procuring some critical equipment.

4. Training and Public Awareness

The promotion of the IFMS concept will involve building awareness of the need for accountability through integrated financial management within the government as well as outside the government. For this reason, conferences and seminars are considered an important tool. They also provide a means to promote democratic values and public awareness of project activities by including such topics as anti-fraud, corruption and ethics in government.

This component will sponsor host government participation at various regional and sub-regional conferences as well as professional development activities. It will also provide funds for sponsorship of in-country events which promote the IFMS/CAS concept.

Total Estimated Cost of Project

	Person Months	AID
1. Technical Assistance		
A. Project Management and Coordination	36	75
B. Project Implementation		
Long-Term Technical Assistance	108	2,166
Short-Term Technical Assistance	56	1,308
Administrative Unit		132
2. Training and Public Awareness		282
3. Equipment		50
4. Evaluation and Audit		
A. Evaluation	2	47
B. Audit		0
Sub-Total	202	4,060
5. Contingency and Inflation		
A. Contingency		102
B. Inflation		238
Project Total	202	4,400

II. Project Background and Rationale

A. The Need for a Financial Management Reform Project

During the eleven year period of Sandinista rule prior to the elections of 1990, mismanagement in government, war, economic embargo, and political polarization seriously eroded the basic institutions, infrastructure, values, and policy framework necessary for economic and political development in Nicaragua. The Nicaraguan economy suffered from rampant hyper-inflation during this period and experienced negative growth from 1984-1991. Though the economy has stabilized, most Nicaraguans live in conditions of poverty. Literacy rates have fallen off dramatically in recent years; the population growth rate is the highest in the hemisphere; and the health system lacks resources and supplies.

The government faces unique development problems both because of the degree and scope of deterioration in all sectors and because it faces the added difficulties of moving from a centrally planned and state-dominated economy to a democratic/free market orientation in the aftermath of a civil war which caused broad social disruption and polarization.

For development to occur which will bring improved economic and social well-being for Nicaraguan men, women and children, there must be agreement on the new rules of society based on democratic values and improvement in the institutions which can help make democracy work. If democracy is to flourish in Nicaragua, and if democratic institutions are to gain strength and legitimacy, democratically elected governments will have to show themselves to be responsive to the needs of the people and effective in meeting these needs and desires. Government effectiveness, accountability and transparency are key to administering the economic policies established in response to the people's felt needs for a change from old Sandinista policies. The ability of key ministries and agencies to enact and enforce effective economic policy measures and create a climate for private sector expansion is critical to economic growth objectives. Government effectiveness is also a crucial factor in determining the degree to which social goals such as preventive health and basic education are met.

Nicaragua lacks consensus regarding democratic values critical to widespread acceptance of decision-making processes, representative institutions, access to information, government accountability and basic civil and property rights. Because of Nicaragua's limited experience with democracy, citizens will largely derive their opinions and attitudes from perceptions of the efficacy of democratic rule over the next few years. The degree to which democratic

principles are successfully applied within all government institutions will be a major determinant of democratization in Nicaragua.

In order to implement democratic principles within the government, it will be necessary to undertake, among other things, a large scale program of reforming the public administration which executes the government's policies. This reform program will require appropriate legislation to fully institutionalize integrated financial management and comprehensive audit systems (IFMS/CAS) throughout the GON. The systems are needed to provide transparency in the programming and management of each individual government entity's funds, as well as the government as a whole; to produce reliable, timely and pertinent financial information for decision-making; and to hold all government officials responsible for the use of public resources.

Under a democratic government, accountability and checks on power need to become more firmly rooted in Nicaraguan society. Concentration of power should be avoided through a system of checks and balances to assure fairness and effective representation. Transparency in public management must be demonstrated, results accessible to society, and independent review made of its reliability. Implementation of the IFMS/CAS concept is a basic step in fostering the values inherent in a democratic society because it can provide the transparency and accountability which lead to more effective and efficient governance.

B. Integrated Financial Management Concept

Over the last decade, the U.S. General Accounting Office has repeatedly urged AID to incorporate strengthening of host country financial management capability into its long-term development strategy. To meet this objective, and as part of its development of the Democracy Initiative, the LAC Bureau undertook a two-phased Regional Financial Management Improvement Project (LAC/RFMIP I and II). AID's concern was three-fold. First, the degree to which AID can ensure accountability for project funds is dependent on the accountability of the host country for those funds. Without improved financial management skills and systems within the host country, AID cannot ensure long-term accountability for its resources. Second, the ability of the host country to financially manage and support development projects determines whether or not the impact of such projects is significant or not. Finally, improved financial management within the host country government provides for the more efficient use of all public resources and contributes to the economic well-being of people and enhancement of democratic values.

The primary products of the regional project are the development of a conceptual framework of financial management and control, a long-term strategy for its implementation, and approaches for laying the groundwork for implementation through general activities aimed at increasing the skills and awareness of financial managers within LAC countries. A Donor Working Group was also established by AID's LAC Bureau to coordinate donor activities in financial management development assistance. At the core of the conceptual framework of financial management and control is the concept of an (IFMS) in which the governmental

financial management functions of accounting, budgeting, treasury, and debt management (as well as comprehensive audit) are intrinsically linked. The integrated financial management system of a government begins with the capture of resources and ends with the report on use of the resources by the government to provide goods and services to its citizens.

The IFMS concept involves the simultaneous improvement of all financial management subsystems, giving equal importance to each. Budgeting, accounting, treasury, and debt management are so closely interrelated that modifications to one system affect the others. Therefore all proposed changes, laws, standards, manuals, etc. must be cleared by those responsible for each of the above subsystems and all system modifications must be duly coordinated. It is essential that a coordinating group be established by the host government (i.e. Executive Commission supported by the Technical Secretariat) to assure systems coordination and integration. Other subsystems can be incorporated into IFMS over time.

Complementary to these subsystems is a comprehensive audit system which will help assure the integrity and reliability of all government financial management operations. The audit process is not a subsystem of financial management because it is characterized by a governing body that provides independent and professional audits of the government institutions which manage public resources. Furthermore, this audit process includes the participation of modern internal auditing entities and private auditing firms.

The strategy's most important characteristic is an interdisciplinary and integrated approach; concentration on prioritized areas within the IFMS component subsystems; acknowledgement that efforts to improve public sector financial management are medium-term and long-term in nature; an emphasis on practical implementation versus assessment and planning; and promotion of the benefits of improved financial management.

C. Current Status and Problems Regarding GON Financial Management

1. Design Considerations

USAID/Nicaragua contracted the firm of Price Waterhouse to carry out an assessment of the financial management capability of the GON in May 1992. The purpose of the assessment was to identify any weaknesses in the areas of financial management, control and audit, and contracting and procurement. Price Waterhouse provided the Mission with baseline data on Nicaragua's financial management and made recommendations for ways to improve these functions. Several factors were apparent from the assessment:

- Implementation of an integrated financial management system in Nicaragua is critical and would require a long-term commitment of support.

- Limitations of AID funds impose restrictions on implementing all areas at the same time and within the established time frame. However, the existing constitutional and statutory environment should allow implementation of the project components independent of the timing of implementation of system activities not supported by AID.
- Participation by other donors in Nicaragua to contribute to providing assistance in the area of financial management is crucial for reforms in sectors not covered by AID.
- Coordination of all related donor assistance is necessary if improved financial management is to be achieved in an integrated fashion.
- Commitment on the part of the government to fully implement the IFMS/CAS concept and provide necessary counterpart resources is critical for success.

2. Key Constraints

The following section presents the findings of the principal constraints identified in the financial management assessment carried out by Price Waterhouse in May 1992. A more detailed description of the findings and recommendations is included in Annex D - Technical Analysis.

Limited Capability: Demonstrated government effectiveness has been identified as key to sustaining a functioning, stable democracy in Nicaragua. The GON has limited capability to undertake many governmental functions. To demonstrate its efficacy, it must improve efficiency, institute financial controls and accounting systems, and provide independent review of its actions.

Political traditions: A principal mechanism used to prevent abuse of power in democratic societies and assure appropriate representation is a system of checks and balances among branches of the government and among key political and governmental institutions. The political tradition in Nicaragua is one of autocratic rule. Regulatory agencies have been negatively affected by ideological preference and patronage and lack of budgetary and personnel resources. The judicial system has been motivated by ideology rather than by the explicit terms of the law; corruption has come to be an accepted part of the judicial process.

Under the previous Government, the public sector grew to encompass production, distribution and market functions in large segments of the economy. Mismanagement and lack of competition meant that most of these endeavors represented a major drain on public sector resources. The capacity of the Nicaraguan public sector is so limited that it must carve out only the essential government functions of regulation and provision of essential social services and allow the private sector to undertake as many functions as feasible.

Budgetary Levels: The overall low budget levels present one of the most serious problems in trying to improve efficiency. Overall economic decline and the economic stabilization requirements of budget cuts have meant that operational budgets are squeezed to the limits for effective programs and services. Since new and expanded sources of revenue are unlikely to be found in the near term, government entities will have to find ways to improve their efficiency to get more out of the meager budget resources available.

Depth of Problems: The depth and comprehensiveness of the challenges facing the Government of Nicaragua are enormous. Implementing an integrated financial management system and comprehensive audit system in Nicaragua will be difficult, but has to be undertaken. Even in a more developed situation, such as was found in Panama, it is recognized that a long-term approach is necessary. The problems facing the Government of Nicaragua are numerous and continued commitment and interest in this particular area must be maintained and supported in order to make a significant difference.

3. IFMS Implementation Requirements

Integrated Financial Management System implementation, to be fully operational, requires extensive resources, expertise and commitments. USAID/N, in conjunction with other donors, is committed to provide resources for key components of the overall effort. IFMS design and installation, with the underlying accounting/reporting system in place, are the cornerstones of the system. Key subsystems must be fully compatible for all elements to interface properly. Design and installation must be followed by implementation. The resources and expertise of many organizations over several years will be necessary to implement the system throughout the government on a nationwide basis. The FMRP is but one element, albeit the key one, in this effort. Overall requirements for IFMS design and installation, per the Price Waterhouse Analysis and Recommendations, are outlined in Annex D.

III. Project Description

A. Project Goal, Purpose, Outputs and End of Project Status

The goal of the Financial Management Reform Project (FMRP) is to promote greater consensus within Nicaragua on democratic values, including accountability and professionalism in government service. The purpose of the project is to improve government effectiveness and ability to plan, administer and control public resources and thereby reduce the potential for waste, fraud and abuse.

By the end of this four year project, Government financial accountability will have been improved. This will be achieved as a result of project efforts through the adoption of the integrated financial management and comprehensive audit system concept. The system established as shown in the project outputs below should provide the requisite checks and balances to reasonably ensure adequate accountability over GON resources and thereby reduce the potential for waste, fraud, and abuse.

- Adoption of the IFMS and CAS approach to financial management. Consistent use of government-wide, standard accounting procedures facilitates review of financial records and identification of irregularities and problems.
- Accounting subsystem established at the Central Government level (Ministry of Finance) which classifies, segregates, records and analyzes all government transactions. Segregation of transactions and appropriate analysis makes it more difficult to perpetrate fraud.
- Comprehensive audit system established which ensures fair, objective, reliable, and independent review of government performance. Expanded and improved audit procedures serve to identify incidents of waste, fraud, and abuse, as well as correct and improve systems and procedures.
- Improved awareness of the GON's capability to administer public resources.

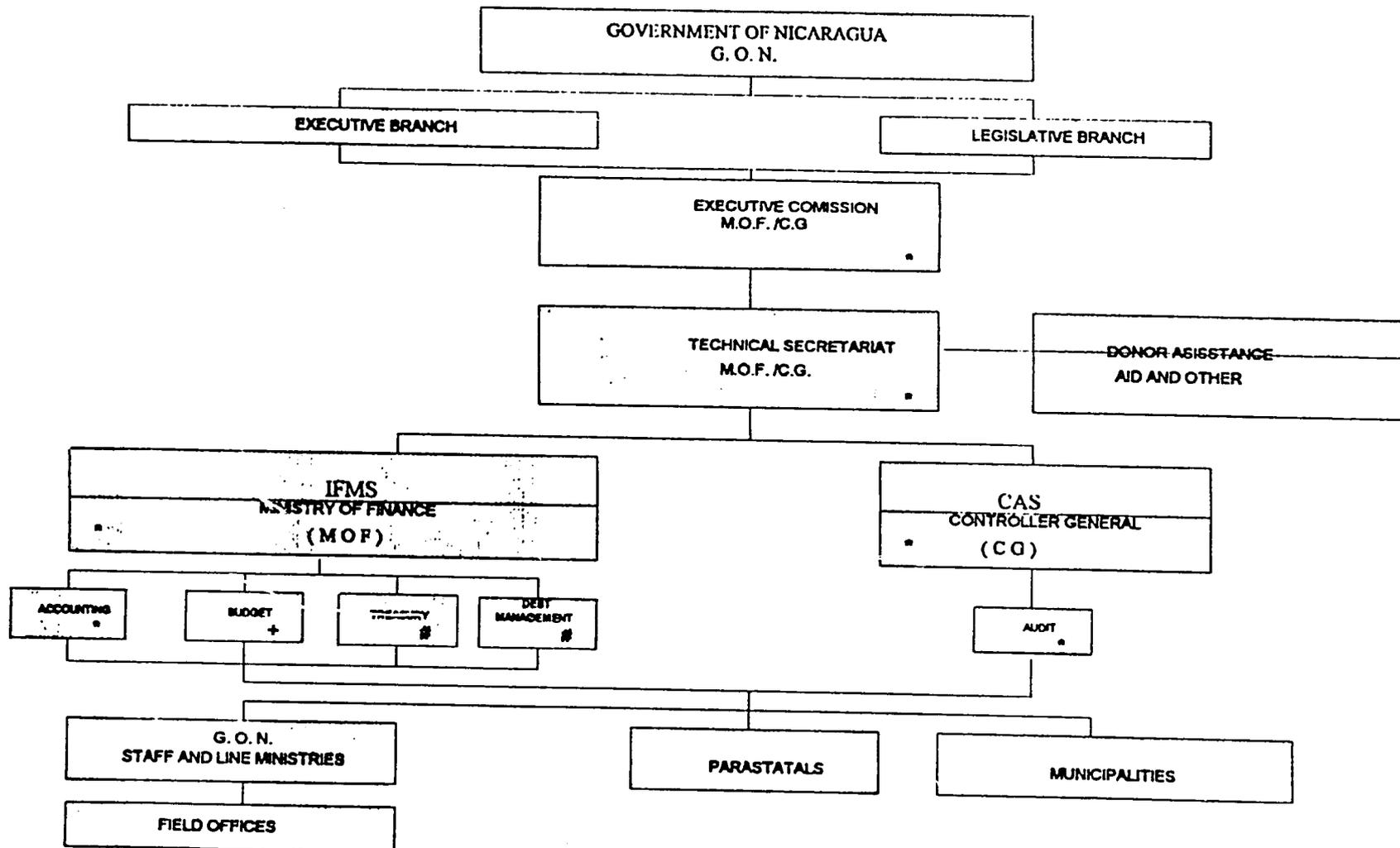
By the end of AID project assistance, these outputs will be accomplished. Assistance to be provided by AID in these areas is independent of other donor support. Therefore, to implement and automate all subsystems of IFMS at all government agencies, assistance from other donors will be required (see Annex D). The project purpose will be enhanced by assistance coordinated through the Executive Commission and Technical Secretariat. Such assistance will be provided by other donors such as the United Nation's Development Programme (UNDP), International Monetary Fund (IMF), the World Bank, and the Inter-American Development Bank (IDB). They have submitted financial management improvement proposals or concept papers to the GON and all agree with the importance of an integrated approach.

The FMRP will concentrate on the areas of IFMS and CAS considered most critical on a prioritized basis. This approach will be to first ensure that a clear vision of what the integrated financial management system and comprehensive audit system are, what they will do, and why the legislative framework is so important. Secondly, the FMRP will focus on designing and installing the IFMS accounting subsystem and CAS and on enhancing (through the Executive Commission) coordination with other donors to provide assistance in the budgeting, debt management, treasury areas and the expansion of these systems in other GON Ministries and agencies. The following organizational chart shows the areas where the FMRP will focus its efforts. Concurrently, seminars and training activities will be sponsored to promote public awareness of the government's commitment to accountability, transparency and the fight against fraud and corruption in government.

The four basic subsystems which comprise a government's financial management system are: budgeting, treasury, debt management and accounting. Complementary to these subsystems is a comprehensive audit system which will help assure the integrity and reliability of all government financial management operations. The principal factor which "integrates" the project's various activities is a uniform, reliable accounting system to and from which all financial data flow and which enforces, generally accepted international standards for accounting, financial reporting, and auditing.

Recognizing funding and time limitations, the FMRP will provide key assistance in those areas which were identified as being critical and of a priority nature, as described in the following components. In the drafting of legislation AID will be providing support in all areas of IFMS/CAS.

**FINANCIAL MANAGEMENT REFORM PROJECT
ACTIVITY COORDINATION AND IMPLEMENTATION FLOW**



- * AID Project funds will be used in these areas.
- + World Bank assistance will be focused on the budget subsystem.
- # The focus of IDB assistance will include the areas of Treasury and Debt Management.
See "Relationship to Other Donor Assistance" section on page 18.

B. Components

1. Adoption of the Integrated Financial Management System

USAID/Nicaragua's strategy to improve financial management will be carried out through design, installation, and promotion of legislation necessary for establishment of the integrated financial management approach in the organization, regulation, policies, and standards of key agencies of the government responsible for financial management. The systems, policies and standards created will lay the base for the implementation of an integrated financial management system throughout the entire government. However, full implementation of IFMS is beyond the scope of this project alone.

To create the conditions necessary for the collaboration among the entities and to facilitate coordination of activities, an Executive Commission, composed of the Minister of Finance and the Comptroller General will be legally established. The GON's commitment to create a commission will be formally established by the Project Agreement to permit implementation of the integrated concept; provide support for the assignment of counterpart personnel; and assure the sustainability of future development of the integrated approach once the project ends. The Executive Commission's principal responsibilities will be to:

- Promote legislation, secondary norms and administrative orders necessary to establish IFMS/CAS in Nicaragua, including the recognition of a central regulatory authority and governing bodies in the appropriate areas;
- Provide leadership needed to develop a plan to train the personnel required for the establishment of the integrated system;
- Provide assistance for the implementation and follow-up of the integrated system; and
- Coordinate and direct other donor resources for the accomplishment of the IFMS and CAS.

The Executive Commission will delegate authority to a Technical Secretariat which will have responsibility for implementing the following functions:

- Prepare the legislation, secondary norms, and administrative orders necessary to establish an integrated financial management system in Nicaragua, including the recognition of the central regulatory authority and governing bodies in appropriate areas;
- Provide and train the personnel required for the establishment of the integrated system;

- Ensure the adequate implementation and follow-up of the integrated system; and
- Coordinate and direct (with the assistance of the FMRP-funded Technical Director) other donor resources for the establishment of the IFMS/CAS.

The Technical Secretariat will be staffed by representatives from the Ministry of Finance and Office of the Comptroller General. The GON (Ministry of Finance and the Office of the Comptroller General) will provide the counterpart necessary to support FMRP (i.e. personnel, facilities and commodities) and will identify overall functions and responsibilities of the Secretariat, personnel staffing needs, and other required support.

The long-term Technical Director, as part of the FMRP technical assistance contractor team, will provide technical assistance (TA) with legislative reform and the Technical Secretariat in the coordination of IFMS/CAS activities to help ensure overall quality control of the integrated approach. Short-term technical assistance and training will also be provided by the institutional contractor. Coordination of all activities (GON, AID, and other donors) in the IFMS approach will be the responsibility of the Technical Secretariat. Some short-term assistance may also be provided under LAC/RFMIP II in overall technical coordination, subsystem of accounting, and auditing, as well as assistance needed to draft legislation, policies, standards and norms.

The Organic Law of the Comptroller General and the Budget Law of 1992 (Law No. 51) provide the legal basis for the integrated financial management system and comprehensive audit system to be implemented. To make this project successful, agreement by the Minister of Finance and Comptroller General to establish the Executive Commission and promote the adoption and implementation of the system is essential. The Executive Commission, through the Technical Secretariat, must serve as the coordinator for donor assistance in the area of financial management and ensure that financial management improvement assistance falls within the IFMS and CAS framework. Passage of legislation for a Code of Financial Management would enhance public awareness and provide a clear legal basis especially if GON autonomous entities and state enterprises are to eventually be included in the IFMS/CAS. However, adoption and implementation of the FMRP should not be impeded even without such legislation.

2. Implementation of an Integrated Accounting System

Improving financial management is recognized as a long term commitment, and a complementary critical need of the government is to demonstrate its capacity for transparent, effective governance over public resources in the short and medium terms. Therefore, this component will focus on designing and installing an accounting subsystem in order to provide a common, reliable data base to and from which the system's financial information flows, as well as required standards for recording and reporting on financial data.

The objective of the accounting subsystem is to classify, record, analyze, and report GON financial transactions on a timely basis in a format that is useful and which supports user's information needs for decision making purposes. The accounting subsystem is the responsibility of the Minister of Finance, who is also responsible for preparing consolidated financial statements of the government and for ensuring that established accounting standards are applied by each of the accounting units within the public sector.

Short and long-term assistance will be provided through the Technical Secretariat in implementing the accounting subsystem. An estimated 67 person months of technical assistance over the next four years is projected. Annex I provides detailed descriptions. In particular, assistance will be provided to:

- Establish the Ministry of Finance as the central regulatory authority of the Government Accounting and Financial Information System;
- Develop a conceptual framework for an integrated system of financial information based on underlying economic reality;
- Develop an integrated government accounting system for the central government which will include developing a chart of accounts compatible with budget classifications; and
- Train personnel of the Ministry of Finance and other government entities in the application of the appropriate norms and methodologies.

3. Comprehensive Auditing System (CAS)

This component will assist in the establishment of a Comprehensive Audit System within the Government of Nicaragua. The objectives of the audit system will be to determine (in a professional and independent manner) whether the Government of Nicaragua has obtained appropriate value for monies invested, whether revenues have been collected and deposited intact, whether assets are adequately controlled and protected, and whether financial statements and other financial data are fairly presented in accordance with generally accepted international accounting standards and applicable legislation. A comprehensive audit system will also help to assure that plans are executed with management authorization, in accordance with the policies and programs of the government, in an effective, efficient and economic manner. This will help ensure public confidence in the democratically elected government.

The central regulatory authority of the comprehensive auditing system (which the project will help to establish) will be the responsibility of the Comptroller General. In addition to being the governing body, the Office of the Comptroller General (OCG) will be the entity responsible for coordinating, and to a certain extent reinforcing the audit programming,

regulation and monitoring of audits conducted on public sector agencies by internal agency audit units and audits performed by private auditing firms.

Internal control is the responsibility of the management of each government entity. However, the OCG is responsible for establishing applicable overall standards. Internal auditing includes the financial and performance audits performed by each institution's internal audit personnel. External auditing includes the external financial and performance audits performed by the OCG and by private auditing firms contracted in coordination with the Office of the Comptroller General.

Through the Technical Secretariat, technical assistance will be provided to assist the Office of the Comptroller General. An estimated 61 person months of technical assistance is to be provided over a four year period. Annex I includes detailed descriptions for this assistance. This includes assistance to:

- Incorporate in a Code of Financial Management the necessary norms for the operation of the Office of the Comptroller General, on a coordinated, integrated basis consistent with the government's activities;
- Reorganize the structure of the Office of the Comptroller General, converting it into the governing body of a system of control and audit and ensure compliance with the pertinent legal requirements;
- Prepare a set of policies, standards, processes and procedures for the issuance, implementation, follow-up and evaluation of control and audit in the public sector including those required by law;
- Ensure that the personnel of the Office of Comptroller General, both professional and non-professional staff, are sufficiently trained to carry out their responsibilities; and
- Develop a Master Plan for Information Systems for the Office of the Comptroller General.

4. Training and Public Awareness

The promotion of the IFMS concept will involve building awareness of the need for integrated financial management within the government as well as outside the government. Successful implementation of an integrated financial management and comprehensive auditing system is a basic step in fostering government accountability because it will provide the transparency and attest functions which lead to more effective, responsive, and efficient governance. For this reason, conferences, seminars and short-term training are important tools for building this awareness. They also provide a means for promoting democratic values such as ethics in government, and personal responsibilities of government employees.

During the project, seminars and conferences will be sponsored and attended by host country officials.

Topics of such seminars and conferences will focus on promoting ethics in government and reducing fraud, waste, and abuse in government. Conferences will also serve to provide professional development and exchanges of ideas and experiences. This component will sponsor Nicaraguan participation at such conferences as the Annual New Developments in Government Conference, Central American Key Financial Managers Conferences, and the Inter-American Conference on Women in Governmental Financial Management. It will also be used to sponsor Anti-Fraud and Corruption Seminars, Ethics in Government Seminars and other short-term awareness and training opportunities which are identified during the life of the project.

The Technical Secretariat, with assistance from the Technical Director and other long-term consultants, will be responsible for developing an annual plan for seminars, conferences and short-term surveys and identifying those events which will most benefit the purpose of the project and create an awareness among the public (other public institutions, the National Assembly and the private sector) of the financial management reforms taking place.

C. Relationship to AID, USAID/Nicaragua, GON and Other Donor Strategies and Other Related Projects

1. Relationship to AID Strategy and Projects

The objectives of AID's democracy initiative activities are to support democratic political development, help establish enduring political practices, institutions and values which mobilize participation, channel competition, respect basic human rights and promote open, lawful and accountable governance. The LAC Bureau strategy on democracy calls for accountability and transparency in governance. One of the key characteristics of lawful governance is the accountability of the executive branch of the government.

The overall objective is to encourage the strengthening of competent, accountable government institutions that will merit public confidence. A primary area of focus for democracy initiatives is accountability within the executive branch and includes activities such as:

- Improvement of procedures for public review of administrative decisions and actions;
- Strengthening of procedures for financial accountability; and
- Improvement of measures to reduce corruption.

In support of these objectives, the LAC Bureau developed the Latin American and Caribbean Regional Financial Management Improvement Project, (LAC/RFMIP I) to help address weaknesses in financial management of host countries. The goal of the follow-on project RFMIP II is to improve LAC Region host-country accountability and capacity to manage financial resources, including those provided by donors, in an integrated and efficient manner. The purpose of the LAC/RFMIP II is to improve governmental accountability and financial management in Latin America and the Caribbean and implement the strategy developed under LAC/RFMIP I. This is being accomplished through the promotion and dissemination of the Integrated Financial Management Systems (IFMS) concept throughout the region, adaption and implementation of IFMS or smaller scale projects designed to improve specific aspects of the financial management system in as many countries as possible, the strengthening of government auditing and the overall raising of awareness of the debilitating effects of fraud and corruption on financial management. Interventions in the areas of strengthening financial management and auditing/control functions under both the LAC/RFMIP II and the USAID/N Financial Management Reform Project will result in reducing the potential for fraud, waste, and abuse by establishing an internal control system with requisite checks and balances to reasonably ensure accountability over host country resources. As mentioned earlier, the Regional Project will provide advice on the FMRP, as well as models for the overall IFMS and CAS concept.

USAID/Nicaragua's Country Development Strategy Statement (CDSS) has identified "improved government effectiveness in key areas" as a critical element in achieving the Mission's strategic objective of "greater consensus on democratic values." The CDSS points out that Nicaraguan government institutions operating under a democratic system must address the high expectations raised during the election and create a positive early experience with democratic rule. The government must show progress in meeting the critical needs of society, demonstrate accountability, and appropriately serve the people of Nicaragua. USAID/Nicaragua activities to improve government effectiveness focus on supporting improved operation of those government entities which perform functions critical to improved representation, justice, and accountability. In particular, support is provided to address the limited capacity for accounting and financial management in government institutions. A major output of the Mission's democracy strategy is greater confidence in democratic institutions and processes.

Mission strategy also links the importance of economic growth and consolidation of democracy. Without economic stabilization and growth, democracy is not likely to flourish. Economic progress requires effective action by democratic institutions as important complements to the operation of a free market economy. The FMRP is designed to address these issues directly by providing a framework for more effective GON administration of public resources.

The FMRP will complement the Mission's Strengthening Democratic Institutions Project (SDI). The goal of the SDI Project is to contribute to the development of a stable enduring democratic system in Nicaragua that protects human rights, promotes justice, and encourages

participation. The project purpose is to strengthen democratic institutions and the values and attitudes that nurture them. One of the activities is a Cooperative Agreement with the Consortium for Legislative Development (CLD). This SDI project includes technical assistance, training, and equipment to the National Assembly. The training and the legislative retrieval and codification of laws system sponsored through CLD will enhance the capacity of the legislature to monitor the budget and draft legislation regarding financial management.

2. Relationship of Project to GON Strategies

Since the new Government assumed power in 1990, it has been challenged by economic deterioration and political disruptions and has attempted to restore confidence through transformation to a market based economy. In order to carry out this strategy, the GON's objectives have been to:

- halt the hyper-inflation;
- reverse the economic deterioration;
- establish a framework for private sector-led investment and growth;
- begin a program of structural reforms;
- improve accountability to provide the transparency and attest functions which will lead to more effective and efficient governance;
- provide for the well-being of the poorest classes; and
- reestablish relations with foreign creditors.

While initial steps were successful, the Government is now facing a critical period between stabilization and sustained confidence. The Government must exhibit more efficiency and effectiveness in the public sector, policy reforms and institutional strengthening. It is necessary to rehabilitate the existing infrastructure in order to meet the economic objectives and provide for the delivery of goods and services to the population.

The FMRP will provide a means of improving the efficiency and effectiveness of the Government in handling public resources, thereby providing better services to the citizens. It will also strengthen the democratic values critical to sustaining a democratically elected government through its emphasis on transparency, checks on power and independent review of the actions taken by the government.

3. Relationship to Other Donors

Increasing interest in improving the financial management capability of the Government of Nicaragua has become evident. The Inter-American Development Bank has supported a tax reform program, and is currently providing \$ 3.0 million in assistance to the Central Bank to establish an effective management and organization structure and automate management information systems. The World Bank is committed to providing an initial grant to strengthen the GON's budget function as part of an overall government reform effort (total

funding of approximately \$14 million). This assistance will be channeled through the Executive Commission and Technical Secretariat to be established pursuant to execution of a bilateral agreement for the USAID/Nicaragua Financial Management Reform Project. The InterAmerican Development Bank has proposed to undertake a Technical Cooperation Project to strengthen the Ministry of Finance so that it becomes the institution capable of economic financial management in a form consistent with the market focus which the Government of Nicaragua has proposed. The project focuses on several areas; Treasury, Debt Management, Procurement, and Customs. The Project is calculated to last three years and has an estimated budget of \$2.2 million dollars. The approach also recognizes the need for integrated systems and therefore, it is predicated on approval of the FMRP. The UNDP has initiated a \$0.7 million project to modernize certain activities in the Ministry of Finance and the National Institute of Public Administration.

The Inter-American Development Bank (IDB) has proposed to the GON, in the form of a "Ayuda Memoria", a Program of Technical Assistance for Fiscal Administration (dated March 11, 1994). The Memorandum, signed by the Minister of Finance, was coordinated with USAID/N and the World Bank. As part of the Integrated Financial Management System, the IDB will provide assistance in the areas of Public Credit (Debt Management), Treasury, Procurement/Contracting and Customs. Major tasks include the following:

- Define the functions of all GON organizations involved with public/credit/debt, including MIFIN, MEDE, MCE and the Central Bank;
- Present a Law of Public Debt and incorporate it into the IFMS law/legal structure;
- Strengthen the Office of Public Credit (MIFIN) through manuals, equipment, training and technical assistance;
- Implement a computerized system for the administration of Debt, integrated with the accounting and budget systems;
- Revise the norms for acquisition by the GON of goods and services;
- Establish a procurement data base and register of consulting firms;
- Create a transparent, agile and economic procurement system.
- Establish a coterie of government staff capable of operating the procurement system; and
- Modernization of Customs operations (when the Operation Plan is prepared).

The time necessary for conducting these activities is estimated by the GON and IDB at eighteen months at a cost of over \$2 million.

The World Bank has provided a copy of the Aide Memoire "Technical Assistance Credit Mission", dated 2/11/94, in which advance preparation of a Technical Assistance Credit (TAC) to support the GON's Reform of the State Program is described. The relevant portion of that program is the component for "strengthening the budget and expenditure control process" and the document confirms the GON and World Bank "in their commitment to advance as rapidly as possible with the implementation of the proposed Integrated Financial Management Project (IFMP) designed in conjunction with USAID; and their (the GON's) request that the Bank assume responsibility on the donor side, through the proposed TAC, for the budget and expenditure control technical assistance component of the IFMP." A design team will arrive this summer to determine in greater detail the key activities, including required human and financial resources, organizational needs, and implementation schedules. The TAC will consist of the following:

"(i) diagnosis of current weaknesses and the subsequent design of improved budgeting and expenditure control processes; (ii) the design and implementation of a system of medium-term revenue and expenditure forecasting; (iii) the analysis and development of inter-governmental fiscal transfer system to integrate municipal government into the national development process as well as clarify program boundaries between central ministries and local government; (iv) strengthening of the linkages between recurrent and investment expenditures; (v) implementation of necessary procedural and managerial changes for use of the new systems; and (vi) pilot testing in selected ministries, over two budget cycles, of the improved budgeting system along with limited training of personnel in system implementation. TAC support for the improvement of the budget and expenditure control process would form a key portion of the Government's Integrated Financial Management Program, which includes co-financing from USAID and IDB." Current cost estimates are for \$1.9 million from the World Bank. In recent meetings (April, 1994) the WB has agreed to finance IFMS-related automation/computer costs. Activities should start by CY 1995.

Donor coordination will be key in fully implementing the IFMS concept. Successful coordination will be ensured when detailed annual implementation plans are developed through the Executive Commission and Technical Secretariat.

IV. Cost Estimate and Financial Plan

A. Project Budget

The Financial Management Improvement Project consists primarily of technical assistance, training and professional development provided to the Ministry of Finance and Office of the Comptroller General of Nicaragua. The proposed total cost of the project is \$4.4 million in development assistance (DA) funds which will be obligated through a Handbook 3 Grant Agreement between USAID/Nicaragua, the Ministry of External Cooperation, the Ministry of Finance and the Office of the Comptroller General. Tables I and II present the estimated yearly cost of the project by elements and by components. Annex F contains the detail tables and budgetary notes.

Table I
Cost Estimate by Element
(U.S. \$000's)

Element	Year 1		Year 2		Year 3		Year 4		Total
	FX	LC	FX	LC	FX	LC	FX	LC	
1. Technical Assistance									
A. Project Coordination	---	12.5	---	25	---	25	---	12.5	75
B. Institutional Contractor									0
Long-Term TA	433	---	671	---	671	---	391	---	2,166
Short-Term TA	233	---	444	---	444	---	187	---	1,308
Administrative Unit	45	---	35	---	35	---	17	---	132
2. Evaluation	---	---	47	---	---	---	---	---	47
3. Training and Public Awareness	---	---	94	---	94	---	94	---	282
4. Equipment	50	---	---	---	---	---	---	---	50
5. Contingency	19	---	33	---	32	---	18	---	102
6. Inflation	---	---	54	---	104	---	80	---	238
Total (Rounded)	780	12.5	1,378	25	1,380	25	787	12.5	4,400

Table II
Cost Estimates by Component
(U.S. \$,000's)

Component	Year 1	Year 2	Year 3	Year 4	Total
1. Project Coordination (FSN PSC)	12.5	25	25	12.5	75
2. Integrated Financial Management System ●	144	224	224	130	722
3. Accounting Sub-system *	307	475	475	256	1,513
4. Comprehensive Auditing System *	260	451	451	209	1,371
5. Training and Public Awareness	---	94	94	94	282
6. Equipment	50	--	---	---	50
7. Evaluation	--	47	---	---	47
8. Contingency	19	33	32	18	102
9. Inflation	--	54	104	80	238
Total	792.5	1,403	1,405	799.5	4,400

- * Long-term and short-term TA elements and administrative unit costs (See Annex F)
- Technical Director costs only

B. GON Contribution

The GON will provide counterpart personnel for the Technical Secretariat and the Office of the Comptroller General, as well as physical space and equipment for technical assistance personnel and training. In addition, the GON will provide personnel during the life of the project to implement the accounting subsystem initiated within the project. A waiver is requested of the 25% counterpart requirement, as GON activities represent revisions of existing activities with associated costs already part of the government's budget (see Annex J). New costs will be minimal and do not warrant monitoring or tracking.

The nature of the Project is such that the most significant contribution the GON can make is to assure the participation of key personnel and other staff members as counterparts to the technical assistance team. The Project Agreement will specify that the GON (Minister of Finance and the Comptroller General) agrees to the creation and agrees in substance and form to the functions and responsibilities of the Executive Commission and Technical Secretariat in support of the implementation of the IFM/CAS concept and agrees to provide sufficient counterpart contributions (personnel, facilities, equipment, etc.) on a timely basis over the life of the project.

The Ministry of Finance has agreed to provide any computer equipment required to carry out the implementation of the accounting subsystem. The Office of the Comptroller General currently only has nine computers and the project will provide an estimated eight more to be used for training and for audits.

C.

Methods of Implementation and Financing
(in \$000's)

Budget Item	Method of Implementation	Method of Financing	Approx. Amount
PSC Asst Proj Officer (FSN) Technical Assistance Contract:	Direct AID Contract	Direct Pay	\$75
Long-Term TA	AID Direct - Instit. Contractor	Direct Pay	2,166
Short-Term TA	" " "	Direct Pay	1,308
Administrative Unit	" " "	" "	132
Training Programs	" " "	Direct Pay	282
Equipment	AID Direct Contract	Direct Pay	50
Evaluation	Buy-in or Direct Contract	Direct Pay	47
Audit	N/A	N/A	N/A
Sub-Total:			4,060
Contingency and Inflation:			340
Total			4,400

There are to be a total of four long-term and numerous short-term positions to be funded under the project. AID will contract directly for one long-term PSC position (budgeted as an FSN, but the nationality will be determined later), and an institutional contractor who will provide three long-term positions and at least eight short-term positions (see Annex F).

D. Recurrent Costs

To a significant extent, once reforms generated under the project are installed, sustained utilization of project outputs will simply reflect routine operations of the GON already funded in their annual operating budget. However, some benefits of the project will be sustained only if the GON is willing to continue to fund activities originally developed with AID funding. Continued training, public awareness efforts and appropriate compensation policies for well-trained personnel are examples. Additional purchases of equipment as the staff of the Office of the Comptroller General become more effective should also be supported.

The proposed project has been developed in conjunction with high level officials at the Ministry of Finance and the Comptroller General. It is believed that counterpart commitment to funding the costs of sustaining the benefits of the project will not present problems in part because the financial benefits of sustaining the functions improved under the Project will compellingly demonstrate to GON officials the desirability of providing adequate resources for financial management and audit operations.

V. Implementation Plan

A. Responsibilities

A US direct hire (USDH) in the USAID/N Office of Finance (OFIN) will serve as Mission Project Officer for the Financial Management Reform Project. The Project Officer will be responsible for coordinating, facilitating and monitoring implementation activities with the USAID/N Project Development and Implementation Support Office (PDIS), Executive Commission and Technical Secretariat, Ministry of Finance, Comptroller General's Office, and the institutional contractor. The Project Officer will be assisted by a Foreign Service National (FSN) Assistant Project Officer (see Annex I for Scopes of Work).

A long-term Technical Director working under the institutional contract (see Annex I for Scope of Work) will provide TA to the Secretariat in such areas as legislative reform and control and audit. This individual will also assist the Technical Secretariat in the coordination of all aspects of the program with GON counterpart personnel, the institutional contractor, and other donors. The Technical Director will also be responsible for assisting the USDH Project Officer in reviewing qualifications of proposed long- and short-term consultants to be provided by the institutional contractor. The Accounting Specialist on the institutional contractor team will be designated Chief of Party and will, as such, report to the Mission Project Manager.

As the main host country counterpart, the Technical Secretariat, in close coordination with the USDH Project Officer, the Technical Director, the Accounting Specialist and the Auditing Specialist, will ensure effective and timely implementation of project activities including:

- 1) Preparing draft legislation;
- 2) Training personnel for the establishment of an IFMS and CAS;
- 3) Providing assistance for the implementation and follow-up of the integrated system; and
- 4) Coordinating other donor resources for the accomplishment of IFMS and CAS.

Several methods of implementation were considered in the project design. It was decided because of the large number of long- and short-term consultancies and the high level of expertise required, that the principal technical assistance contract should be bid through full and open competition. The institutional contractors will be responsible for providing technical assistance personnel, training, and administrative support.

B. Implementation Arrangements

1. Project Grant Agreement with Government of Nicaragua

Under the Project Grant Agreement with the Government of Nicaragua, USAID will provide assistance to the Executive Commission, Technical Secretariat, Ministry of Finance and the Office of the Comptroller General. Once the Project Grant Agreement is signed, USAID will hire an Assistant Project Officer and an institutional contractor. As part of the Grant

Agreement, the GON will commit to legally establish an Executive Commission and a Technical Secretariat and delegate authority and responsibilities for the implementation of the IFMS and CAS concepts to the Technical Secretariat.

Acceptance by the Ministry of Finance (MIFIN) and the Office of the Comptroller General (OCG) of each agency's role in the development and maintenance of an integrated financial management system and the commitment of the Comptroller General and Minister of Finance to work together in the definition and integration of their respective financial management responsibilities within the government is essential to the successful implementation of the project. Interviews with the Comptroller General, the Minister of Finance and representatives of other government institutions have confirmed support by the key GON agencies for implementation of the IFMS and CAS.

Because of the crucial importance of agreement among the key GON agencies on their responsibilities and commitments to the project, the agreement will be signed by the chief officers of the Ministry of External Cooperation, Ministry of Finance and the Office of the Comptroller General.

The Technical Director will work for the Technical Secretariat and will be responsible for the technical direction of the project and will report directly to the Executive Commission. The Assistant Project Officer will help the USDH Project Officer in directing, coordinating, facilitating and monitoring implementation of all project activities. More detailed Scopes of Work for both the Technical Director and the PSC Assistant Project Officer are set forth in Annex I - "Scopes of Work for Project."

2. Procurement of Technical Assistance

The USAID/N Project Officer and Technical Evaluation committee, in coordination with the Executive Commission and USAID/N Contracts Office, will be responsible for identifying and selecting a firm to provide TA in accordance with the Scopes of Work contained in Annex I. Short-term TA will be provided through the institutional contractor, with final selection made by USAID/N and the Executive Commission. The Mission will be responsible for selecting and hiring an Assistant Project Officer (FSN PSC).

Several methods of implementation for the provision of technical assistance have been considered, including various contracting mechanisms. Because of the requirement for large numbers of short-term consultants, the technical assistance contract will be subject to full and open competition. All eligible firms, including small and disadvantaged businesses, may present bids for the provision of services through an institutional contract. The Ministry of Finance will be represented on the institutional contractor selection committee. The institutional contractor will provide a long-term Technical Director, Accounting Specialist (Chief of Party), and an Auditing Specialist. The contractor will also provide an estimated 56 person months of short-term technical assistance for project activities and to conduct or coordinate all training activities.

Short-term technical assistance requirements will be determined by the Technical Secretariat and long-term contract personnel, with the concurrence of the Executive Commission and

USAID/N. Some preliminary requirements have been identified: (1) training of GON accountants in new financial systems; (2) software and automation needs assessment and IFMS/CAS system integration; (3) standardization and consolidation of financial reporting (4) training of GON auditors; (5) public works audit requirements; and (6) training of trainers for accounting and auditing.

The selection of personnel to be provided through the institutional contract will be made jointly by the Executive Commission, USAID/N Contracts Officer and USAID/N Project Manager. The Mission will be responsible for selecting and hiring an Assistant Project Officer. It is envisioned that the individual selected will be a Nicaraguan, although this remains to be determined. USAID may procure, through the LAC/RFMIP II contract, assistance with technical direction of IFMS and subsystems on a short-term basis.

3. Equipment Procurement

The Ministry of Finance has agreed to provide whatever equipment is necessary for training and implementation of the IFMS activities in the Ministry of Finance. The Office of the Comptroller General is not able to provide this same type of support. Therefore, because of the training to be carried out and lack of resources, eight additional computers will be procured for the OCG. The equipment will be procured by USAID/Nicaragua.

C. **Project Implementation Schedule**

It will be important to maintain a detailed and up-to-date schedule in order to ensure that the consultants are available when necessary. There are two important factors which contribute to the necessity of maintaining a detailed and flexible, yet up-to-date schedule. First, the educational and professional level of the staff at the Ministry of Finance and the Office of the Comptroller General is of concern; because of the deterioration in educational levels and staffing in the government, the estimates for training time and level of effort needed may be conservative. Therefore, the availability and scheduling of consultants must be somewhat flexible. Secondly, because the Mission will be handling the procurement of goods and services directly, it will mean close monitoring of the assistance so that consultants will be available when the particular expertise is needed. Most implementation activities start about six months after approval and end six months before the Project completion date. This allows a realistic work schedule to be prepared and allows for an orderly closeout (or amendment). The critical path events scheduled for the early stage of the implementation (along with the target completion dates - note that completion dates are stated in terms of the number of months after signing the ProAg, i.e. number of months after month -0-) are estimated as follows:

Activity	Months
ProAg signed, IFMS/CAS concept adopted	0
PIO/T for Institutional Contractor cleared	1
PIO/T for PSC cleared	1
CBD Notice for Institutional Contractor Published	1
RFP written and issued	2
PSC selected, clearance process started	2
Conditions Precedent to First Disbursement met	2
Deadline for Offers on RFP	4
Initial Evaluation of Institutional Contractor Offers	5
Instit Contractors' Best and Final Offers Submitted	6
Review of Best and Final	6
Contract Issued for Institutional Contractor	6
PSC start work	6
Executive Committee and Technical Secretariat formed	7
Institutional Contractor Team Arrival	7
Project Annual Work Plan drafted	10
Training Plans drafted	12
Short-Term Technical Assistance start arriving	12
Financial Management reform Legislation drafted	15
Organization and Operations of Accounting System defined	18
Development of Organizational Master Plan at MIFIN	18
Audit Systems designed	18
Code for IFMs and CAS drafted	24
Mid-Term Evaluation	24
Integration of Accounting Subsystem at MIFIN	30
CAS implemented and OCG reorganized	36
Chart of Accounts completed	36
Training Activities completed	40
Final Evaluation completed	40
Code for IFMS and CAS approved	42
GON Financial Statements per IFMS issued	42
Project Closeout	42
PACR Prepared	44
PACD	48

D. Monitoring, Evaluation and Audit

1. Input Monitoring

The USDH Project Officer will be responsible for monitoring and reporting on the disposition of project inputs, the provision of which will be documented through the normal correspondence associated with program and project implementation. These include Project Implementation Letters (PILs), financial reports, contractor quarterly reports, and semi-annual Activity Reports.

The Interagency Democratic Initiatives Committee will provide broad oversight on legislative reforms and policy statements made under the project. The Technical Secretariat will have oversight responsibility of all donor resources and the coordination and management of project activities. Major inputs consist of person months of technical assistance (short and long-term), some equipment, and training/public awareness activities. The levels shown are estimates only, as illustrative figures shown in the Project Description and Cost Estimate.

2. Output monitoring

By the FY 1998 PACD, USAID expects that the FMRP will have achieved the outputs described in Section IIIB and the Logframe. The Project Officer will be responsible for monitoring and reporting on the achievement of these outputs. The specific indicators that will be used to measure their achievement, as well as the means of verifying those indicators, are outlined in the logframe, but must be refined during the first few months of project implementation. The Project Officer, with assistance from the Chief of Party (Accounting Specialist), will be responsible for continually monitoring the indicators, as the capacity of counterpart personnel for absorbing training and scheduling of consultants in appropriate and timely fashion will have a direct impact on FMRP.

The USDH Project Officer, with assistance from the Chief of Party and Assistant Project Officer, will also be responsible for measuring progress toward the purpose-level indicators as described in the Log Frame within the context of routine project implementation actions.

3. Evaluation

Funding will be provided under the project for one major evaluation of implementation. The evaluation will take place approximately 24 months after the start-up of the project. The scope of work for the evaluation will focus on the input and output sections outlined in the logframe and will address implementation issues that may have emerged in the project's first two years. Reference will be made to the PW Technical Analysis in reviewing and analyzing progress made. The purpose of the evaluation will be to provide recommendations which might improve implementation. In particular, the evaluation will look at the functioning of the Executive Commission and Technical Secretariat in initiating and carrying out critical project activities as well as their effectiveness in coordinating both A.I.D. and other donor assistance. It will also look at the extent to which planned project activities are on schedule and will attempt to identify specific constraints to achievement of project purposes that may

require more concerted effort by project participants. The mid-term evaluation team may include U.S. direct hire personnel from the Mission and personnel working with LAC regional project who are familiar with the project design and can play an important role in implementing evaluation recommendations. However, participation of outside consultants (two person months) has been budgeted.

If a final evaluation is done, the major task will be to look at the degree to which the project purpose was accomplished and to focus on project impact (it could be funded through the use of contingencies). It will also serve to identify and articulate "lessons learned" in the design and implementation of the project. If follow-on activities are considered, the final evaluation should identify those areas that need to be addressed and/or modified and suggest how they might be amended. The evaluation might also point out where additional involvement by other donors might have complemented the work completed under the project. The evaluation team should represent an outside, objective perspective.

4. Audit

An evaluation of audit coverage was performed based upon the methods of project implementation and financing. It was determined that AID Finance and Administration/Office of Procurement will be responsible for arranging and tracking the status of required audits for the Institutional Contractor. Moreover, the other direct AID contracts contemplated do not require project funding for audit services. Should AID later decide that any local audit services are warranted, AID/GON Trust Funds will be used.

VI. Project Analyses

A. Technical Analysis Summary

The Technical Analysis is based on six individual assessments covering the areas of budgeting, treasury, public debt, accounting, procurement, and control and auditing. They were prepared in May 1992. Copies of the summary and the individual assessments are located in the Mission's project files in Spanish. Annex D provides the basic text of the technical analysis.

The assessments were carried out using an integrated approach to reviewing governmental financial management and audit systems and diagnostic teams from Price Waterhouse analyzed the legal framework, organizational structure, policies, standards, procedures, processes, human resources and information flow for the respective areas. The assessments identified areas in need of improvement, specific objectives to be achieved, and the relative level of effort of the required technical assistance for each objective as measured in terms of consultant months.

It was noted earlier that not all of the needed improvements could be funded with the proposed level of financing and projected level of effort. This finding is in line with the LAC Regional Financial Management Improvement Project opinion that real improvement in governmental financial management requires a long term commitment. The analysis resulted

in recommending a design which will establish an overall integrated framework into which any future donor projects directed at financial management would have to fit, thus assuring the continuity of the integrated approach.

The project structure recommendations were conceived as a set of technical assistance activities providing the basic framework of IFMS for improving those areas of financial management which most influence integration in other areas, considered critical, and of a priority nature. In the specific case of Nicaragua, these areas have been identified as accounting, and auditing. The recommendations also include related improvements in budgeting, treasury, procurement, and debt.

The analysis team concluded that the Project can be initiated within the existing structure of the GON (with the Ministry of Finance in charge of the accounting component and the Comptroller General's Office in charge of the auditing component). However, to assure an integrated focus throughout all components of the project and resolve any conflicts in project implementation it was determined that it was essential to create an Executive Commission to assure policy level coordination between the Ministry of Finance and the Comptroller General. A Technical Secretariat would also need to be created to assure the technical compatibility of the policies, standards and procedures to be developed in all areas. The Technical Director would play a key advisory role in the Executive Commission and a critical management role in the Technical Secretariat.

B. Economic Analysis Summary

Measuring the social profitability of improving a government's infrastructure in a particular area, such as financial management capability, is difficult in quantitative terms. In the case of Nicaragua it is extremely difficult. The basic assumption underlying project activities is that by assisting the government to more effectively and efficiently manage its scarce resources, it will help to:

- stabilize the democratically elected government;
- provide the structural reforms necessary to promote private sector-led investment and growth; and
- provide for improved delivery of goods and services to the population.

Although far smaller in size than it was under Sandinista rule, the public sector in Nicaragua remains a major component of Nicaragua's economy -- in terms of national expenditure, investment, and employment. From an economic perspective, it is therefore essential that Government resources be used as efficiently as possible. During the years of Sandinista rule, there was generally little accountability for the use of resources among the various components of the GON. The Central Bank, for example, frequently extended credit to state enterprises that did not repay their obligations. At the same time, subsidized prices charged by government enterprises often bore little relation to their operating costs -- requiring large transfers of resources from the Central Government. Under these circumstances, there was little motivation for the GON to develop a modern system of accounting or financial management.

This system of accounting, inherited from the Sandinistas, is clearly inadequate to meet the GON's current requirements. The accounting systems used by state enterprises (other than the public utilities and the social security institute) have been so incomplete that it has been difficult or impossible to evaluate their performance. And even the financial data of the Central Government and the public utilities are, at best, only approximations. With the installation of an accounting system, the GON will be able to accurately record historical financial transactions which will enhance its capability to adequately control, monitor, and account for all public resources. This system will also enable the GON to improve its budgeting system by creating a historical starting point for developing budgetary data and thereby allowing the GON to make more efficient use of its scarce resources.

The FMRP assistance in the area of control and audit should improve the Government's ability to potentially reduce fraud, waste and abuse by establishing an internal control system which will contain the requisite checks and balances to reasonably ensure adequate accountability over GON resources. This, in turn, should improve the public's perception of the efficacy of a democratic system of government (see Annex E).

C. Social Soundness Analysis

Nicaragua's socio-cultural legacy is primarily authoritarian and centralist. This has been one of the reasons that the Sandinista rule was able to last eleven years. The new democratically elected government faces some very difficult development challenges to overcome this legacy and promote the democratic values of wide-spread participation decision-making processes, representative institutions, access to information, government accountability and basic civil and property rights. This project has been developed as a means of supporting these values in the government. The project promotes government accountability through access to information, timely information for decision-makers and the responsibility of each government official to honestly and ethically protect the resources of the people.

Implementing democratic values is a long-term commitment in a culture which has been primarily authoritarian. However, if the citizens of Nicaragua perceive that the government is using the resources in an efficient and effective manner, this will strengthen their belief in a democratic system.

In order to assist the government in using the public resources effectively, particularly, financial resources, certain mechanisms have to be put in place: the first is an integrated financial management system which ensures transparency, checks and balances and efficiency of time and labor; and the second is the strengthening of the independent review of the government's handling of the resources. Together these two elements can greatly contribute to the accountability of the government to the citizens.

The beneficiaries of a government financial management reform project are the citizens of Nicaragua. If the government is efficiently using resources, then economic growth will occur and better services will be provided. The scope of this project does not include an entire reform of the government's financial management structure because of limitations of time and funding. This project will focus on providing an integrated financial management framework, promoting other donor assistance within that framework, and assisting the GON to develop accountability and transparency.

The strong interest expressed by officials of the Ministry of Finance and the Office of the Comptroller General in strengthening their roles and responsibilities support implementation of this project. Both government agencies agree with the division of responsibilities which an integrated financial management system and a comprehensive audit system require with the Ministry of Finance as the coordinating body for financial management and the Office of the Comptroller General as the governing body for audit.

In conclusion, the project will have a positive impact on Nicaragua society, the activities and benefits will go long beyond the life of the project and appears feasible in view of the political will to implement the financial management and comprehensive auditing systems at the national level.

D. Environmental Considerations

The proposed project will not involve activities which directly affect the natural and physical environment. The activities which will be carried out qualify for a categorical exclusion under 22 CFR 216.2(c)(2)(xiv) as "studies, projects or programs intended to develop the capability of recipient countries to engage in development planning" (see Annex G IEE and Environmental Threshold Decision).

E. Issues

All implementation functions for this project will be carried out by the GON with USAID/N concurrence and will include identifying and selecting an institutional contractor to provide technical assistance and training, as well as potentially using LAC/RFMIP II. The decision to have A.I.D. assist in carrying out some of these functions has been jointly made by A.I.D. and the GON. The host government entities to be strengthened are not capable of performing all of these functions at present. Although A.I.D. will be the implementing agency, there are certain risks that were identified during the design of the project. They are:

- Once the legislation is drafted (Code of Financial Administration), it may not be approved in the National Assembly.

This risk is considered slight in Nicaragua because of the interest of both the Minister of Finance and the Comptroller General to clearly define and have legislated mandates to perform their roles and responsibilities as governing bodies. It is not considered crucial to the success of the project.

- As the accounting subsystem is developed, the implementation of the accounting classifications by all entities of the government could be difficult.

The Code of Financial Management will legally establish the Office of Government Accounting in the Ministry of Finance as the governing body for the budgeting and accounting system. With this mandate, it will be able to enforce adherence to the new regulations and standards. Secondly, once useful financial information is produced, the motivation to continue to apply the new regulations will be greatly increased.

- The integrated financial management system can only function correctly if there is coordination among the agencies involved in its implementation.

To minimize this risk, the project agreement will require the two agencies involved to form the Executive Commission. This Commission will have the responsibility of promoting the Code of Financial Management and of coordinating all donor assistance within the integrated financial management framework.

- The GON will provide the necessary human resources to carry out the project.

To minimize this risk, the project agreement will include the standard provision requiring the Grantee to provide necessary counterpart resources for the Project. In addition, PIL No. 1 will specify that the Ministry of Finance and the Office of the Comptroller General agree to provide the human and material resources necessary for the operation of the Technical Secretariat.

VII. CONDITIONS AND COVENANTS

In addition to standard initial conditions precedent relating to assurances that the Project Agreement is authorized, legally binding and signed by appropriate officers of the GON, the following covenant is proposed:

The Parties agree to establish an evaluation program as part of the Project. Except as the Parties may otherwise agree in writing, the program will include, during the implementation of the Project:

- (a) Evaluation of progress toward attainment of the objectives of the Project;
- (b) Identification and evaluation of problem areas or constraints which may inhibit such attainment;
- (c) Assessment of how such information may be used to help overcome such problems; and
- (d) Recommendations on adjustments to Project activities.

Annex A

Logical Framework



**Financial Management Reform Project
Logical Framework**

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Assumptions																					
<p>GOAL: To promote greater consensus within Nicaragua on democratic values including accountability and professionalism in government service.</p>	<p>Nicaraguan public and political leaders have greater confidence in the competence and credibility of key government institutions.</p>	<p>Surveys and focus group analyses. Comptroller General annual reports. Peaceful operations of political processes. GON financial documents and independent audits.</p>	<p>Accountability improvements will be recognized by Nicaraguan elites and the public at large.</p> <p>Improved audit functions which find and publicize cases of mismanagement, fraud, and abuse will not dominate public perceptions of overall government performance.</p> <p>Government performance reinforces positive public perceptions based on improved accountability.</p>																					
<p>PURPOSE: To improve government effectiveness and ability to plan, administer, and control public resources and thereby reduce the potential for waste, fraud, and abuse.</p>	<p>End Of Project Status: Government accountability is improved in key Ministries. IFMS/CAS concept adopted as GON system of financial management. Integrated government accounting system installed. Comprehensive auditing coverage of significant GON entities.</p>	<p>Audits by the Comptroller General and international accounting firms including opinions on adequacy of the internal control systems. Donor acceptance of GON financial controls. GON financial and procedural documents. Contractor reports. General publications.</p>	<p>Work with only the Ministry of Finance and Comptroller General will be sufficient to bring about noticeable improvement in government effectiveness.</p> <p>Other donors will provide assistance to expand implementation of the integrated financial management system.</p>																					
<p>Inputs:</p>		<p>Means of Verification</p>	<p>Assumptions</p>																					
<p>Project Elements (See Cost Estimate and Financial Plan - Table II)</p> <table border="0"> <tr> <td>Technical Assistance</td> <td>(164 person months)</td> <td>3,606,000</td> </tr> <tr> <td>Project Coordination</td> <td>(36 person months)</td> <td>75,000</td> </tr> <tr> <td>Seminars and Conferences</td> <td></td> <td>282,000</td> </tr> <tr> <td>Equipment and Facilities</td> <td></td> <td>50,000</td> </tr> <tr> <td>Evaluation and Audit</td> <td>(2 person months)</td> <td>47,000</td> </tr> <tr> <td><u>Contingency and Inflation</u></td> <td></td> <td><u>340,000</u></td> </tr> <tr> <td>TOTAL</td> <td>(202 person months)</td> <td>\$ 4,400,000</td> </tr> </table>	Technical Assistance	(164 person months)	3,606,000	Project Coordination	(36 person months)	75,000	Seminars and Conferences		282,000	Equipment and Facilities		50,000	Evaluation and Audit	(2 person months)	47,000	<u>Contingency and Inflation</u>		<u>340,000</u>	TOTAL	(202 person months)	\$ 4,400,000		<p>Project Reports USAID Controller Records Audits</p>	<p>U.S. Congress makes funds available. Satisfactory project implementation. Nicaraguan government's continued support for project objectives.</p>
Technical Assistance	(164 person months)	3,606,000																						
Project Coordination	(36 person months)	75,000																						
Seminars and Conferences		282,000																						
Equipment and Facilities		50,000																						
Evaluation and Audit	(2 person months)	47,000																						
<u>Contingency and Inflation</u>		<u>340,000</u>																						
TOTAL	(202 person months)	\$ 4,400,000																						

**Financial Management Reform Project
Logical Framework**

Outputs	End of Project Status	Means of Verification	Assumptions
<p><u>Integrated Financial Management System (IFMS)</u></p> <p>Adoption of an integrated system which incorporates all GON entities and provides uniform, consolidated financial reporting.</p> <p>Establishment of legal code for GON financial management, with MIFIN as central authority for subsystems of budgeting, treasury, public credit and accounting and with the Office of Comptroller General (OCG) as central authority for GON auditing.</p> <p>Development of an organizational master plan for the financial administrative structure of MIFIN.</p>	<p>System designed and installed. IFMS/CAS adopted as GON approach to public financial management.</p> <p>Legislation and/or decrees issued establishing the IFMS/CAS and organizational framework.</p> <p>MIFIN staff structure revised to meet IFMS requirements.</p>	<p>Government financial statements that meet generally accepted accounting standards. Contractor reports.</p> <p>La Gazeta (publication of such legislation as public documents).</p> <p>GON staffing patterns job descriptions.</p>	<p>GON has the will to reform and adopt practices into the IFMS system.</p> <p>Political differences do not encumber unified decisions on the adoption of the system.</p> <p>MIFIN has the will to reform its staff to fit requirements of the IFMS system.</p>
<p><u>Accounting Subsystem</u></p> <p>Preparation of the integrated government accounting system and operations of the system.</p> <p>a. Regulations of the accounting system.</p> <p>b. Chart of accounts tie in with budgetary classifications.</p> <p>c. Consolidated financial statements issued by MIFIN.</p>	<p>Manual or regulations being used.</p> <p>Accounts and budgetary classifications are compatible.</p> <p>Issuance of consolidated statements.</p>	<p>Institutional contractor reports and analyses.</p> <p>Actual manuals or text of regulations.</p> <p>Actual GON financial records.</p> <p>Actual MIFIN financial statements.</p>	<p>GON fully adopts IFMS and corresponding accounting system. (a and b).</p> <p>GON able to provide necessary staff resources to all branches of government.</p>
<p><u>Comprehensive Audit System (CAS)</u></p> <p>Comprehensive audit system fully established which ensures fair, objective, reliable review of government performance.</p> <p>Reorganization of the Office of the Comptroller General: Revise organizational structure, devise scopes of work, develop professional public sector auditing standards.</p>	<p>System in place and fully operable.</p> <p>Office of Comptroller General is reorganized and professional capabilities enhanced. Internal audit units established.</p>	<p>Copies of audits. Contractor reports. Review of procedures. Analyses of actions resulting from audit findings and recommendations.</p> <p>OCG and GON organigram and staffing patterns. Internal audit reports. Contractor reports.</p>	<p>OCG revamps the current audit system and adopts the new system.</p> <p>OCG revamps the current audit system and adopts the new CAS.</p>
<p><u>Training and Public Awareness</u></p> <p>Trained MIFIN accounting personnel.</p> <p>Trained OCG auditors and agency internal audit units.</p> <p>Public Awareness and GON transparency enhanced.</p>	<p>Training program firmly established.</p> <p>Published GON financial statements available to public.</p>	<p>Review of training program.</p> <p>Contractor reports. General publications.</p>	<p>Training program fully operational.</p> <p>GON fully adopts IFMS/CAS.</p>

ANNEX B
GON REQUEST FOR ASSISTANCE



Ministerio de Finanzas
Despacho del Ministro

RECEIVED

MAY 27 9 47 AM '94

COMMUNICATIONS OFFICE
U.S. DEPARTMENT OF STATE

Managua, 23 de Mayo de 1994.
DM-223-94

Doctora
Janet Ballantyne
Directora
Agencia para el Desarrollo
Internacional (A.I.D)
Su Despacho.

Estimada Dra. Ballantyne:

Tengo el agrado de dirigirme a usted a fin de solicitar nuevamente su amable gestión, con el propósito de lograr el financiamiento requerido para la ejecución del Proyecto de Reforma a la Administración Financiera y Control Gubernamental, en las áreas ya definidas con USAID como son: Contabilidad, Control Externo e Interno, Marco Jurídico y la Secretaría Técnica del Proyecto.

De antemano le manifiesto que nuestra Institución está sumamente interesada en apoyar la ejecución de dicho proyecto que permitirá fortalecer e integrar los sistemas de administración financiera y control gubernamental. Por estas razones, el Ministerio de Finanzas priorizará las labores a realizar en su ámbito y desde ahora nos comprometemos a proporcionarle a USAID todo el apoyo necesario para la pronta ejecución del proyecto.

En adición a lo anterior, deseamos informarle que se creará una Comisión de Reforma de la Administración Financiera y Control Gubernamental que estará integrada por el Contralor General de la República y el Ministro de Finanzas, la cual será legalmente establecida dentro de la creación del Comité Ejecutivo de la Reforma del Sector Público a través de un Decreto Ley de la Presidencia de la República. Dicha Comisión será apoyada por una Secretaría Técnica dirigida por un Coordinador Técnico que será financiado por USAID, bajo el marco del Proyecto.



Ministerio de Finanzas

Despacho del Ministro

Quisiera finalmente añadir que organismos internacionales como el Banco Mundial, Banco Interamericano de Desarrollo y las Naciones Unidas nos han ofrecido asistencia técnica en los otros componentes del Proyecto tales como: Crédito Público, Presupuesto, Informática, Tesorería, Compras y Suministros, así como en otras áreas importantes de la Reforma del Sector Público. Cabe destacar que continuaremos gestionando apoyo financiero adicional con otros organismos que pudiesen estar interesados en contribuir a la realización de tan importante Programa.

Aprovecho la oportunidad para reiterarle las muestras de mi más alta consideración y aprecio.

Acentuamente

Emilio Pereira A.
Ministro

 Ministro de Finanzas

cc:

Lic. Arturo Harding

Lic. Mirna Somarriba G.

ANNEX C
STATUTORY CHECKLIST

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? Yes¹

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

a. General requirement (FY 1993 Appropriations Act Sec. 522; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

1. a) Nicaragua is following a private enterprise approach which includes the promotion of exports and international trade. b) The freely elected Government of Nicaragua is pursuing a strategy to foster private initiative and competition. c) N/A. The project has no credit components. d) N/A. e) N/A. This is a government financial management project. f) N/A.

2. The project will help introduce U.S. technology and experience to improve the Government of Nicaragua's financial management, auditing and procurement systems through U.S. technical assistance, training and limited commodities. All project commodities will be imported from the U.S., thus increasing U.S. exports.

a. A Congressional Notification was sent to Congress on December of 1992 and expired without objection. ATN was submitted in March, 1994 and expired without objection.

¹The Country Checklist (Pages 1-8) were attached to the first project paper approved in FY94 (524-0313 PVO-Co Funding Amendment #1)

b. **Notice of new account obligation (FY 1993 Appropriations Act Sec. 514):** If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and nonproject sector assistance (FY 1993 Appropriations Act Sec. 571(b)(3)):** If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

4. **Engineering and Financial Plans (FAA Sec. 611(a)):** Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

N/A. No engineering plans are required for the activities contemplated in the project.

5. **Legislative Action (FAA Sec. 611(a)(2)):** If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

No legislative actions is required.

6. **Water Resources (FAA Sec. 611(b); FY 1993 Appropriations Act Sec. 501):** If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. **Cash Transfer and Sector Assistance (FY 1993 Appropriations Act Sec. 571(b)):** Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

N/A

8. **Capital Assistance (FAA Sec. 611(e)):** If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. **Multiple Country Objectives (FAA Sec. 601(a)):** Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

See Item A.1 above.

10. **U.S. Private Trade (FAA Sec. 601(b)):** Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

See Item A.1 above.

11. Local Currencies

a. **Recipient Contributions (FAA Secs. 612(b), 636(h)):** Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The GON, as part of on-going, current activities supports MINFIN and OCG activities. As these are already budgeted, counterpart funds are not show for this Project.

b. U.S.-Owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

c. Separate Account (FY 1993 Appropriations Act Sec. 571). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

N/A. This Project will not generate local currency.

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

N/A

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

N/A

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

N/A

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

N/A

12. Trade Restrictions

a. Surplus Commodities (FY 1993 Appropriations Act Sec. 520(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A

b. Textiles (Lautenberg Amendment) (FY 1993 Appropriations Act Sec. 520(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

No.

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No.

14. PVO Assistance

a. Auditing and registration (FY 1993 Appropriations Act Sec. 536): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

b. Funding sources (FY 1993 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

15. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

N/A.

16. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and

Yes.

technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

17. Women in Development (FY 1993 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes. The project will train accountant, auditors, and procurement specialists many of whom are women.

18. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No. The assistance to be provided will be coordinated with multilateral programs in the financial sector; however the assistance under the A.I.D. project will be tailored to the unique Nicaraguan situation.

19. Abortions (FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 524):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No.

b. Will any funds be used to lobby for abortion?

No.

20. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

No.

21. U.S.-Owned Foreign Currencies

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1993 Appropriations Act Secs. 507, 509): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

N/A. The U.S. owns no Nicaraguan currencies.

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

22. **Procurement**

a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

Yes. Small qualified firms will be invited to submit proposals for the provision of services under the Project.

b. **U.S. procurement** (FAA Sec. 604(a) as amended by section 597 of the FY 1993 Appropriations Act): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?

Yes.

c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

N/A

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

N/A.

f. Cargo preference shipping (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No.

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes. Technical assistance will be obtained from a U.S. private firm (full and open competition).

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes.

i. Termination for convenience of U.S. Government (FY 1993 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes.

j. Consulting services (FY 1993 Appropriations Act Sec. 523): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

Yes.

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Yes.

l. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

23. Construction

a. **Capital project (FAA Sec. 601(d)):** N/A
If capital (e.g., construction) project, will U.S. engineering and professional services be used?

b. **Construction contract (FAA Sec. 611(c)):** N/A
If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

c. **Large projects, Congressional approval (FAA Sec. 620(k)):** N/A
If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

24. **U.S. Audit Rights (FAA Sec. 301(d)):** N/A
If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

25. **Communist Assistance (FAA Sec. 620(h)):** Yes.
Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

26. **Narcotics** Yes.

a. **Cash reimbursements (FAA Sec. 483):** Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

- b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes.
27. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Land reform efforts will not be supported through this project.
28. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.
29. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes.
30. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? N/A. No motor vehicles will be provided under the project.
31. **Military Personnel** (FY 1993 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes.

32. **Payment of U.N. Assessments (FY 1993 Appropriations Act Sec. 505):** Will assistance preclude use of financing to pay U.N. assessments, arrearsages or dues? Yes.
33. **Multilateral Organization Lending (FY 1993 Appropriations Act Sec. 506):** Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes.
34. **Export of Nuclear Resources (FY 1993 Appropriations Act Sec. 510):** Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes.
35. **Repression of Population (FY 1993 Appropriations Act Sec. 511):** Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes.
36. **Publicity or Propaganda (FY 1993 Appropriations Act Sec. 516):** Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? No.
37. **Marine Insurance (FY 1993 Appropriations Act Sec. 560):** Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? Yes.

38. **Exchange for Prohibited Act (FY 1993 Appropriations Act Sec. 565):** Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? No.

39. **Commitment of Funds (FAA Sec. 635(h)):** Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement? No.

40. **Impact on U.S. Jobs (FY 1994 Appropriations Act, Section 547):**

(a) Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business? No.

(b) Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.? No.

(c) Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country? No.

V

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

- | | |
|---|--|
| <p>1. Agricultural Exports (Bumpers Amendment) (FY 1993 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?</p> | <p>N/A</p> |
| <p>2. Tied Aid Credits (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?</p> | <p>N/A</p> |
| <p>3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?</p> | <p>N/A</p> |
| <p>4. Indigenous Needs and Resources (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.</p> | <p>The project was developed in close collaboration with local counterparts. It seeks to provide TA and training to accountants, auditors and procurement specialists for the purpose of developing and implementing an integrated financial management comprehensive auditing system.</p> |

5. Economic Development (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes. A development of a sound financial management system in the GON is essential to sustained development.

6. Special Development Emphases (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

(a) Efficient use of GON resources should result in an improved level of government services which will directly impact all citizens including the poor. (b) The project seeks to promote greater consensus within Nicaraguan on democratic values including accountability and professionalism in governmental services. (c) The project supports the efforts of the both the Comptroller General and the Ministry of Finance. (d) The project will provide training to accountant, auditors, financial and procurement specialists many of whom are women. (e) Consultants to be provided under the project will apply relevant, successful experience of countries in the region.

7. Recipient Country Contribution (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

No, Nicaragua is a relatively least developed country. Funds from GON are already part of budget. A waiver of the host country contribution is recommend.

8. Benefit to Poor Majority (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Yes, the project will result in assisting the GON to more efficient manage its financial resources which should improve the level of services provided to the poor.

- 9. Abortions (FAA Sec. 104(f); FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 534):** No.
- a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? No.
- b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? No.
- c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? No.
- d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? No.
- e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? N/A
- g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? No.
- 10. Contract Awards (FAA Sec. 601(e)):** Yes.
 Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

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11. **Disadvantaged Enterprises (FY 1993 Appropriations Act Sec. 563):** What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

The PP calls for full and open competition. 8(a) firms are eligible to bid. No funds are set aside for disadvantaged firms.

12. **Biological Diversity (FAA Sec. 119(g):** Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

N/A

13. **Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):**

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes, a categorical exclusion has been granted. (IEE # LAC-EI-92-34).

b. Conservation: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental

N/A

impacts of the proposed activities on biological diversity?

c. Forest degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

No on all points.

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

No. Another A.I.D. Project in this sector, the Natural Resources Management Project, is assisting the GON in developing such program.

e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

N/A

14. **Energy** (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases? N/A
15. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management. N/A
16. **Deobligation/Reobligation** (FY 1993 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? N/A
17. **Loans**
- a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. N/A. Project is DA funds.
- b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? N/A. Project is DA funds.

c. **Interest rate (FAA Sec. 122(b)):** If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

N/A

d. **Exports to United States (FAA Sec. 620(d)):** If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

18. Development Objectives (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

(1) The implementation of an integrated financial management and comprehensive auditing system will enable the GON to make more efficient use of its financial resources and thereby provide an improved level of service to all citizens including the poor. (2) The project will not be involved in the development of cooperatives. (3) The project will assist the GON in planning, administering and controlling public resources and thereby reduce the potential for fraud, waste and abuse. (4) Some of the beneficiaries of project assistance will include women who are employed as accountants, auditors, and procurement specialists. (5) The project contemplates buy-ins for technical assistance and training to the LAC/Regional Financial Management Improvement Project Phase II.

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

N/A

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of endogenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A

c. Food security: Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A

20. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

21. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

22. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

N/A

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

N/A

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

N/A

c. research into, and evaluation of, economic development processes and techniques;

N/A

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

N/A

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

N/A

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

N/A

23. Capital Projects (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level?

ANNEX D
TECHNICAL ANALYSIS

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D. TECHNICAL ANALYSIS

Improving Latin American government financial management capability has become a topic of increasing interest to the international donor community during the last few years. Although definition of the subsystems which make up an integrated financial management system may vary from organization to organization, they are all in agreement that unless an integrated approach to this problem is taken, then government financial management development attempts will generally fail.

The Latin American Bureau of AID has adopted an integrated financial management system strategy which includes budgeting, accounting, treasury and debt management. Complementary to these subsystems is a comprehensive audit system which will help assure the integrity and reliability of all government financial management operations. The audit process is not a subsystem of financial management because it is characterized by a governing body that provides independent and professional audits of the government institutions which manage the public resources. It also includes the participation of modern internal auditing entities and private auditing firms.

An assessment was carried out by Price Waterhouse Office of Government of Nicaragua services in May 1992. The objective of the assessment of the financial management capability of the Government of Nicaragua was to provide the USAID/Nicaragua Mission with the baseline data necessary to develop a public sector financial management reform project; in particular to:

- o Identifying the areas of financial management, contract administration and audit management which needed strengthening
- o Prepare a list of concrete recommendations, which if implemented by the government, would produce a better utilization of financial and material resources
- o Develop a project paper document describing the technical assistance necessary to carry out these reforms

The specific objective of the assessment was to:

- o Carry out an institutional analysis of the following functions of the government:
 - The central government financial management system (budget, accounting, treasury and public credit), under the authority of the Ministry of Finance describing the current status of each of these areas and identifying areas to be improved

- The control and audit responsibilities of the Office of the Comptroller General, describing the current status of internal and external audit capability and identifying areas to be improved
- Administrative contracting function and its legal, organizational and operation deficiencies in order to develop a plan to improve this function

The following section presents the principal findings from the financial management assessment carried out by Price Waterhouse in May 1992. It begins with the finding on the structural aspects of financial management, followed by findings and recommendations for each of the subsystems which would make an integrated financial management system possible. Not all recommendations are followed. The timeframe has been condensed. Other donors are undertaking some activities that AID had considered doing earlier. However, this was such an important input in the design process, it is included as an annex by itself.

I. Principal Findings

A. IFMS Framework

The Republic of Nicaragua does not have a congruent, harmonic legal framework or Code of Financial Management which coordinates and integrates all of the elements of financial management, in particular, budgeting, public credit, treasury and accounting.

The regulations governing the subsystems of treasury, public credit and accounting, are not adequate. Those that do exist are based on various legal documents, which are often repetitive and generally confusing.

There is uncertainty as to which government agency is legally responsible for the government's accounting system.

"Budgeting" is the predominant force in financial management in Nicaragua.

The very few administrative directives or secondary norms issued by government entities responsible for financial management tend to be isolated and biased toward particular subsystems and do not recognize their relationship to the financial management system as a whole. The entities actually responsible for financial management activities, i.e. the Offices of Budgeting, Treasury, Public Credit and Accounting do not fit together into any type of conceptual framework which would permit them to be considered integrated subsystems of a financial management system. It is clearly evident that there exists a lack of coordination and complementary relationships among them.

Only the Office of the Budgeting, appears to have taken on the role of the governing body for the subsystem of budgeting. The Offices of Treasury, Public Credit and Government Accounting have not assumed any governing role over the various entities which carry out

treasury, public credit and accounting functions throughout government. Because of the lack of leadership, there is no clear definition of their role and responsibilities within the government, Financial management activities are carried out by various entities, both inside and outside of the Ministry of Finance. This results in a duplication of effort, unnecessary layers and fragmented operations, especially in the areas of public credit and accounting. Duplications of effort are also very notable in the budgetary accounting operations of the central government.

Policies and standard for the civil service are inadequate. There does not appear to be a career system, with promotion based on merit and the achievement of preestablished job requirements.

Although in some entities of the central government financial management system the official have university qualifications, extensive experience and a notable degree of dedication to their work, generally personnel appointments do not relate qualifications and experience to position.

There is no Training Center within the Ministry of Finance for the professional development of personnel and only in a very few cases was there any evidence of official support for individually initiated training.

Standards and norms for the civil service are lacking and there does not appear to be a career system, with promotion based on merit and the achievement of preestablished requirements.

From the documentation examined and interviews carried out, it was evident that the Offices of Treasury, Public Credit and Government Accounting neither receive nor produce sufficient information in either quantitative or qualitative terms to serve their purpose. There is no recognition of the lack of adequate procedures for information flow.

The Office of Government Accounting does not have any type of information system.

Some information is now being produced through automation and important progress has been made, especially in the area of budgeting. However, the progress made to dated has not been carried out within the context of a Master Development Plan for Information Resources, and there is a notable lack of coordination of information needs within the Ministry of Finance.

The information which is provided, is not always useful nor timely and often reflects the biases of those that produce it.

B. Analysis of the Budget Subsystem

The year 1986 marked the beginning of the hyperinflation which drastically effected the economy of the country. It also marked the beginning of the deterioration of the budget

system. Budget formulation was reduced to a financial calculation carried out to calculate the real value of the resources spent, taking into consideration the cost of inflation. It certainly did not take into account any organizational programming needs. Budget evaluation was reduced to a periodic analysis of the deteriorating effects of inflation on the funds assigned to various discretionary or mandatory accounts.

As the hyperinflation was brought under control, a budgetary policy was reestablished and took into account the principal macroeconomic variables of the government's economic policies. The approved Budget Law of 1992 permits, within the framework of monetary stability, a revalorization of the activities to be undertaken, the results to be produced and the financial resources necessary to accomplish stated goals.

The Office of the Budget within the Ministry of Finance is responsible for the budget subsystem. At the higher level it is staffed by university graduates with experience in the field and dedication to their roles and responsibilities. Because of this, the budget subsystem has a great deal of institutional influence in the Nicaraguan government.

Notwithstanding this, because of the general deterioration in the public sector arena caused by the previous government, the budget area needs assistance in helping it to adjust to the new economic, political and institutional situation in Nicaragua.

Development in this area also depends to a large degree on the development and advances made in the areas of treasury, accounting and public credit, since budgeting is viewed as part of the integrated financial management system.

Legal Basis

The Budget Law (Law No. 51, Art. 2) states that all budgetary operations by government institutions, totally or partially funded, are to fall under the jurisdiction of this law.

The Office of the Budget (DIGEPRES) has authority over the agencies of the central government, the autonomous entities which are not-for-profit, and those that provide services. Those enterprises of financial institutions that do not receive treasury funds are outside Article Two. In actuality the Corporacion de Turismo (COTUR), Corporacion de Transporte (COTRAP), the Nicaraguan Social Security (INSSBI), and some other service institutions and enterprises do not depend on DIGEPRES but depend on various ministries and municipalities.

Budget Accounting Classifications

The budget accounting classifications have not been designed to fit within an integrated financial management information system and do not reflect all of the financial-economic transactions found in the budget.

Programming Characteristics

During the programming stage, the establishment of goals and indicators has not been sufficiently developed to permit the measurement of productivity and the efficacy and efficiency of the officials responsible for resource management.

There are no institutional budget training manuals to serve as guides for government agencies which have similar institutional characteristics and operations. The formulas used for budgeting do not permit sufficient analysis of the government's budgetary policies; nor do they provide adequate information about the financial-economic situation of the autonomous entities.

Budget Implementation

Article 9 of Law No. 51 established that the Ministry of Finance is responsible for setting the policies and procedures for budget execution and control.

This mandate is carried out in two ways:

The first is the annual *Policies for Budget Execution and Control*. This includes financing, credit limitations, budget amendments, payments, policies for the basic services, trips, purchases, advances, projects, personnel, salaries, etc.

The second, is through the control exercised by the centralization of the revenue and expense recording processes. The Office of the Budget follows-up, via computerization, on the recording of the budget execution. This includes the original budget assignments, the amendments, the commitments, payments, and balances of the monthly accounts as well as the annual budget. This function is carried out in a specialized division which keeps current registers.

Budget Evaluation

Budget evaluation is not systematic and is carried out in an entirely empirical mode. This is because of the lack of accounting information which reflects the financial-economic situation

of the institution, the lack of information on fiscal goals and indicators, and the lack of manuals explaining the methodologies to be used for budgetary evaluation of organizations and entities with similar characteristics.

Organization

The organization of the Office of the Budget is adequate for the operations actually being carried out even though there is no precise assignment of responsibilities between certain offices. Departments should be assigned responsibilities based on organizations and entities

with similar budgetary characteristics.

The Office of the Budget is the only Office that is, at least partially, exercising its role as a governing body. However there is an important group of institutions and entities like COTUR and COTRAP, which should be brought under its authority.

C. Analysis of the Accounting System

Legal Basis

The legal basis for government accounting is found in the Organic Law of the Comptroller General (OCG) and its amendments; the last of which was issued in December 1988.

The Law, which is overly detailed, gives to the Comptroller General a broad range of accounting responsibilities that include all government entities. The Law states in Title II, among other things, that the OCG is responsible for:

- o Dictating and implementing the regulations, policies, standards, manuals and instructions for government accounting, including consolidation of financial information.
- o Designing the format and content of financial reports to be presented to the Minister of Finance and other authorities.
- o Insuring the application of the government accounting system.
- o Issuing directives for the system in general, having authority over the accounting of the government agencies and entities, financial statements, and consolidation of the financial information.

This extensive authority has not been exercised by the Comptroller General since 1988 when it was mandated.

On the other hand, the Budget Law of 1992 (Law No. 51) places the accounting responsibility in the Ministry of Finance. Pertinent sections of the Law include the following:

- o The authority of the MIFIN to adopt the budgetary account classifications that most facilitate economic and fiscal analysis (Art. 7)
- o The responsibility of MIFIN to provide information on budget execution for presentation to the President of the Republic and the Comptroller General (Art. 38)

- o The authority of the MIFIN to establish budgetary accounting policies which government entities must follow, in order to centralize and consolidate the budget execution information.

Accounting Situation

In 1980 the Ministry of Finance designed the recording and reporting formats to be used by central government agencies for the financial accounting of the budget. They were first designed for manual implementation and then in 1982 for computerized application.

The computerized accounting records were kept during some years, but were practically not in use at all in 1990 when the current government came to power. This government has once again began to use the computerized system for recording transactions.

The operation is centralized in a specialized division of DIGEPRES that records and produces information on the yearly commitments, periodic status of expenditures, payment orders and disbursements carried out under the budget.

In 1984, the Ministry of Finance created the Office of Government Accounting, a unit that has no legal authority, lacks qualified personnel, systems, accounting procedures, equipment and adequate physical space.

This Office has not produced a single accounting register and its function has been reduced to the collection of data based on the budgetary information of DIGEPRES, treasury fund movements, revenues produced by tax collection entities and other transactions of various entities. It is common that information covering items like revenues and expenditures which is provided by various agencies, differs substantially in the amounts reported.

The Treasury maintains records on the balance of funds on deposit in its bank accounts, It is worth noting that in numerous cases, the payments made by the Treasury lack supporting documentation and transactions are not recorded in a timely manner, It is, thus, virtually impossible to reconcile bank account balances with amounts disclosed per Treasury records.

In the other organizations of the central government, the accounting function is very weak. Generally the accounting information on budget execution and advances for emergency expenditures is not considered reliable.

There are no policies which regulate the budget recording system, nor written procedures to be followed by the agencies of the central government.

The accounting situation in the autonomous entities and state enterprises is also very weak.

The autonomous entities and state enterprises that receive treasury support, generally apply

the revenue and expenditure classifications defined by the Ministry of Finance, but patrimonial accounting, when it exists, is based on individually designed accounts, results, and balances. It is not integrated with the national budget accounts and is so out-of-date that the information it reflects is very old and has absolutely no value for decision makers.

General Conclusion

If not impossible, it is very difficult to obtain in a timely manner, information on the fiscal situation of the government from the authorities responsible for the management of finances and the status of agreements with international credit institutions. There is a real lack of financial information available as evidenced by the quality of programming, implementation and evaluation of the government programs. Timely information and financial management criteria would easily contribute to a healthier financial situation in the short and medium term.

D. Analysis of Treasury System

Legal Basis

Title VI of the Constitution of Nicaragua, Chapter III, Articles 112-115 concern Public Finances. Although there is no reference to financial administration as a whole, there are references to the areas of taxation and budgeting. The Budget Law (Law No. 51) issued in December 1988 and amended by the National Assembly in November 1991, makes no mention of treasury either.

Law No. 142, dated December 1991, in which the National Assembly approved the 1992 budget, contains only one reference to the Treasury. This reference states that "whatever types of actual revenues or income to the account of the Ministry of Finance, that are collected by the ministries or organizations with regularity or by exception, should be entered into the account of the Treasury which is located at the Central Bank of Nicaragua."

The Policies for the Execution and Control of the Budget for 1992 constitutes the only administrative dictate on treasury. It states:

- o "All dependencies of the central government which receive funds in the name of the government, must deposit them in the Treasury account..." (Art. 2)
- o "The Treasury will be responsible for the review of funds received at the Central Bank from commercial revenues, in order to determine their application to the treasury accounts." (Art. 25)
- o "The issuance of fiscal checks is the exclusive responsibility of the Ministry of Finance. The agencies should return to the Treasury the checks not cashed within 20 days of having them returned." (Art. 26)

- o "The Treasury will be responsible for the audit of the fiscal accounts in the different budgetary entities, in order to verify the correct application of the system and control of personnel involved in this function." (Art. 27)
- o "The Office of the Budget and/or the Treasury will examine the mail, as well as meters and telephone bills, to verify the existence of these services." (Art. 29)

These are the only regulations found for the Treasury.

Organization

The Office of Treasury and Public Credit is one of the largest Offices of the Ministry of Finance. Other Offices of the Ministry of Finance are: Revenues, Customs, Budget, Government Accounting, Procurement and Systems.

According to the organizational chart which appears in the approved Budget Law of 1992, the Office of Treasury and Public Credit include the following divisions:

- o Director
- o Office of Internal Control and Systems
- o Administrative Office
- o Office of Donations and Collection of Revenues
- o Office of Recording and Control of Funds
- o Office of Financial Operations Control
- o Office of Public Credit

Notwithstanding the organizational chart of the Treasury, in practice, there is no relationship between Treasury and Public Credit.

Functions

In the absence of legislation which establishes the authority, role and responsibilities of the Treasury, there should be regulations which spell out these characteristics. Conventionally the Treasury carries out the following financial management functions:

- o Receives the revenues of the government for recording, accounting and control

- o Provides funds as needed to government entities for the payment of their contractual obligations.
- o Is directly responsible for the payment of financial obligations of the state
- o Inform the Minister of Finance of the availability of excess funds and shortfalls under the authority of Treasury
- o Present periodic reports on the achievement of its objectives

The consultants were unable to find even one "Procedural Manual" or isolated instruction for carrying out the operations of the Treasury. However, the following was noted:

- o The determination of internal revenues is the responsibility of the Office of Government Taxes, and those of external revenues were the responsibility of the Office of Customs. Collection of these was carried out by their own offices and deposited in the Banco Nacional de Desarrollo and in the Banco de Nicaragua.
- o The revenues received by the commercial entities of Nicaragua were periodically returned to the Treasury.
- o The Banking Systems does notify the Treasury of its global receipts.
- o Certain income does go to the Treasury: excesses from previous budget periods and certain institutional support.
- o The payment process originates in each entity through the preparation of a "Ministerial Order"; a document that with the required data of the transaction is remitted to the Ministry of Finance.

Having received the Ministerial Order, the Office of Information Systems of

the Ministry of Finance prepares the list of payments and the checks, and remits them to the Office of the Budget.

The Office of the Budget reviews the orders, attaches them to the corresponding checks and approves the transactions and remits the documentation to the Treasury.

The payment lists are examined by the Treasury, and depending on the availability of funds in their bank accounts (24 in total, of which 5 are in american dollars), mechanically signs the checks and delivers them to the

Handwritten initials

beneficiaries.

Often the ministerial order originate in the Dispatch Office of the Minister and are sent directly to Treasury. In such cases, the check are written manually and the revisions and pre-control approval of the Office of the Budget is carried post facto.

E. Analysis of Public Credit

Legal Basis

The legal basis for the public credit subsystem is found in the following documents:

- o Budget Law December 22, 1988
- o Budget Law and Public Investment Program, 1992
- o Policies for Budget Execution and Control, 1992
- o Budget Law and its amendments (Law No. 51): Decree of the Law creating the Ministries of the Government, May 1990
- o Law of the Ministry of External Cooperation, March 1985

The Ministry of Economy and Development (MEDE) asks each autonomous entity and agency of the central government for project profiles. MEDE reviews the project with a view to the government's priorities: i.e. renovation of physical installations, employment generation and the assurance of receiving counterpart funds.

The investment plan is presented by MEDE to the National Investment Committee which is made up of the Ministry of External Cooperation (MCE), Ministry of Finance (MIFIN), and the Central Bank, coordinated by MEDE.

This Committee is serviced by a technical committee which is composed of representatives of the institutions which form the National Committee. This group is in charge of consolidating, analyzing, and giving recommendations to the National Committee. The National Committee represents the recommendations to the Economic Cabinet for approval.

Recently, the Minister of Economy was named President of the Central Bank and put in charge of the Economic Development Division. The Public Investment Program of 1992 was prepared by this group and served as the document presented before the Consultative Group in March 1992.

Financing and Negotiation

The Minister of External Cooperation manages external financing and has the responsibility for reporting on the use of the resources.

Our interviews were carried out at the level of government Offices. With the exception of the Office of the Minister of External Cooperation, the others had absolutely no knowledge of the status of negotiations.

In addition to the financing requirements for new projects, the Ministry of External Cooperation is also in charge of the renegotiation of external debt, with the cooperation of the Central Bank. The Ministry of Finance does not participate in these negotiations.

Formalization of Loans

Signature for loans is not the exclusive right of any ministry. Recently the Ministry of Economy signed loans on behalf of the Government.

For practical reasons, the signature for loans can be delegated to various ministers or ambassadors, however, one ministry should have control over the loans that the country is contracting.

Operating Function: Utilization and Servicing of the Loans

The Central Bank is the only institution that receives information from lenders dealing with foreign currency or importations.

There is no requirement that implementing entities provide information on the requests in process for payment. There is no follow-up to ensure that the programmed funds are

received or if the financial institutions are holding up disbursements.

For donations, there is no mechanism in place which assures a flow of information.

Debt Service for Loans

The Office of Public Credit should prepare a "Ministerial Order" for debt payments, however, this is extremely difficult since the majority of the credit institutions do not provide "advice of collection" notices.

The Ministry of Finance has assumed some of the responsibilities for the debt of the autonomous entities. Other debts, over which it does not yet have responsibility, do not totally comply with their terms. The Central Bank is trying to deal with this problem because of the international agreements which require up-to-date debt servicing.

Recording and Control Functions

The Office of External Debt of the Central Bank is the only unit which operates with a data base. It is using the Management System for Public Debt Administration (SIGARDE). In the month of May, it brought in a consultant who will provide technical assistance in the preparation of managerial reports for decision making.

If control is understood as a function which permits one to determine if the operational management of the debt is in conformity with the executive management of debt, control does not exist in the public credit area.

Public Investment Program

- o Only one of the four members who make up the Investment Technical Committee has knowledge of the document prepared by the Consultative Group "Preliminary Inventory of Public Investment Project 1992-1995." This results in inadequate information being given to the National Investment Committee.
- o The non-existence of a pre-investment program makes it difficult to prepare projects with guaranteed viability in the future.
- o For lack of information, priority is given to the projects of the autonomous institutions which demonstrate that they do not have solvency for execution. The Government Investment Program for autonomous institutions is US\$467 million which represent 50% of the Public Investment Program.
- o MIFIN participates in the National Investment Committee, but its participation

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is limited with respect to the institutions which are no part of the central government. The Ministry does not receive sufficient information about the autonomous institutions and therefore, finds it very difficult to give an opinion on the financial requirements needed to carry out the promises made for counterpart funding or debt servicing.

- o The Economic Development Unit was put in the Central Bank because of the urgent need to prepare the documents for the Consultative Group; however this has left the MEDE weakened.

Financing and Negotiations

Since there is no concept of a system of integrated financial information, there are many deficiencies in cash flow projections; especially in the Ministry of Finance.

The decisions for payment of debt should be closely monitored, not only for current loan payments but also in relation to projected net cash flows.

The renegotiation of debt requires a knowledge of capital markets and the ability to negotiate. This experience is lacking in the Ministry of Finance. However, it is these very skills which are necessary in order to determine what payment promises the country can absorb in the short, medium and long term.

Loan Formalities

Since the Ministry of Finance has the responsibility for payments of the contracted external obligations, it should have the responsibility for the authorized signatures to loans. All agreements should be under its authority and it would then distribute the agreements to the appropriate institutions.

Loan Utilization, Servicing, Recording and Control

With the exception of the control function, the Office of External Debt, should have responsibility for the required steps in debt administration. The Ministry of Finance is not the Central Bank, rather it should serve as the permanent institution which provides the channel for communication of information on each government institution as well as the credit institutions.

F. Analysis of Contracting and Procurement

Legal Basis

General: Decree No. 809, Law for Contracting for the Central Government, Decentralized and Autonomous Entities and Municipalities, dated September 7, 1981, provides the legal basis for contracts.

The law states that each government entity will be responsible for its own contracting. The Comptroller General will be responsible for resolving conflicts or contradictions. The Ministry of Finance will be responsible to see that decentralized, autonomous and semi-autonomous entities establish the necessary organic laws as well as ensuring the municipalities do the same. Regulations of the law are contained in Ministerial Agreement, No. 60-91, of the Ministry of Finance, dated November 8, 1991. The regulations contemplate that within each entity, an "evaluation committee" will be established. The committee will include a representative from the Ministry of Finance for all solicitations in excess of one million cordobas.

Office of Procurement:

This Office is located within the Ministry of Finance. Its principal role is to "manage the purchasing, inventorying and storage systems of materials, supplies and office equipment at reasonable cost and quality for the central government agencies.

- o Administrative Contracting is mentioned in various articles of the *Polices for Budget Execution and Control for 1992*. The references are always "subject to current regulations."

It is worth noting that in this document, the purchase and storage of the following budget items are centralized in the Office of Procurement: "cardboard boxes and other papers; headlights and tires; and, gasoline and oil."

Presently, the Office of procurement purchases all office items, commonly used materials, office machines and equipment for the central government agencies which have budgets.

External Control

The Organic Law of the Comptroller General, the Public Administration and Equity Control Systems, gives the Comptroller General the authority for "contract discharge" as well as "contract nullification" if contradictory to the laws or regulations.

Organization

General: With the exceptions of centralized purchasing and those mentioned above as not centralized in the Office of Procurement, each government entity is responsible for the contracting process: decisions, basis for preparation, solicitation, adjudication, subscription and implementation.

Office of Procurement:

Within the organizational chart of the Office of Procurement, a Procurement Division and Supplies Division are identified.

Policies and Procedures

General: Each government agency, depending on its degree of experience, prepares its own solicitation process.

Office of Procurement:

As of the date of this report, the Office of Procurement has not had the opportunity to make any public or private solicitations. It has carried out purchasing using three quotation, with local or foreign suppliers which were not pre-qualified, because the purchases were less than two hundred thousand cordobas.

It has organized its Evaluation Committee as mandated.

It is using out-dated formats and formulas for supplies, purchases, gasoline and financial accounting information.

Human Resources

General: In the majority of the entities, they are trying to carry out the required contracting obligations; however, generally they lack the necessary experience.

Office of Procurement:

The Office of Procurement has 37 employees, including administrative staff and those that staff the central government motor pool gas stations.

Information Systems

The assessment found that there are only a few isolated entities which have any type of information system.

Office of Procurement:

All procedures are manual; the use of the computer is limited to administrative tasks.

G. Analysis of the Office of the Comptroller General

Legal Basis

The legal basis for the Office of the Comptroller General is found in the Constitution, the Organic Law of the Office of the Comptroller General, the Law of Moral Responsibilities of Government Officials and Employees, The Law of Government Administrative Contracting, the Law Regulating Act of Fraud and Corruption, and the Civil Service Law. The following are the most pertinent points of these documents:

Constitution

- o Article 154 - The Comptroller General is the governing body for the control system of the government of Nicaragua
- o Article 155 - The Comptroller General should:
 - Establish a system of control which assures the proper use of funds
 - Establish a system of control over the management of the Budget
 - The control, examination and evaluation of administrative and financial management of all government entities subsidized by the State and the public or private enterprises which receive government funds
- o Article 156 - The Office of the Comptroller General will enjoy operational and administrative independence and will report to the President of Nicaragua
- o Article 157 - The law will determine the organization and operations of the Office of the Comptroller General

Organic Law of the Office of the Comptroller General

This law, which names the Office of the Comptroller General as the governing body for government control, gives the Comptroller General the authority to dictate and implement regulations, policies, standards, manuals and instructions related to various areas including:

- Government auditing
- Government accounting (including the consolidation of financial information)
- Internal control
- External control of public works projects
- Control of financial and material resources
- Control of the computerized information systems

Having these authorities, the Office of the Comptroller General has issued two sets of regulations:

- o Regulations for the Determination of Responsibilities (November 1985)
- o Regulations for the Professional Ethics of Officials of the Office of the Comptroller General and Government Auditors (August 1986)

In addition, various articles of the Organic Law mandate the Office of the Comptroller General to issue:

- o Operational Regulations (Art. 30)
- o Personnel Regulations (Art. 28)
- o Regulations for Contracting of Audits (Art. 31)
- o Governmental Auditing Standards (Art. 32)
- o Technical Standards for Government Internal Control (Art. 33)
- o Technical Standards for Government Auditing (Art. 33)
- o Manual for Government Accounting (Art. 36)
- o Specialized manuals for the exercise of government audits of entities and organization of the government which have similar characteristics
- o Regulations, policies, standards, manuals and instructions for:
 - External Controls for Public Works Projects
 - Controls for Computerized Systems
 - Controls for Contract Guarantees and Bonds

Organization

The Office of the Comptroller General has four basic divisions in the organizational chart:

- o The Executive Division which includes the Comptroller General and the Deputy Comptroller General
- o The Advisory Division which includes the Advisory Committee and the Legal Counsel
 - The Advisory Committee members advise the Comptroller General and also have specific responsibilities within the Contraloria
 - There is no Internal Audit Unit within the Contraloria
- o The Operational Division which includes:
 - The Auditing Office
 - The Pre-Control Office
 - The Legal Office
- o The Financial-Administrative Division which includes:
 - Administrative Division
 - Financial Division

The legislation assigns three basic operations to the Office of the Comptroller General:

- o Set standards for government internal control
- o Audit the financial and administrative activities
- o Assign responsibilities

These functions provide an ample enough range for the Comptroller General to operate at a technically competent, honest and independent level of effort in all activities.

The Comptroller General prepared an organizational structure chart in March, 1992. Other than this, there are no other written policies or procedures such as operational regulations, personnel regulations or training plan.

Processes and Procedures

The Office of the Comptroller General has not issued any internal control standards for the government, however it has carried out some short-term activities to identify weak government controls so that it can begin to carry out complete audits. Additionally, the Comptroller General should define the mechanisms for the control processes as mandated by

the Organic Law.

The Comptroller General coordinates its work with the internal auditors of the various government entities through its Office of Internal Audit. This coordination is based on Article 60 of the Organic Law which requires a coordination between the Comptroller General and the internal audit units. In practice, this communication basically consists of the Comptroller General receiving the final reports prepared by the internal auditors. The purpose of the review is to determine if an investigative audit is required and assign the appropriate follow-up. The Comptroller General also requires the internal auditors to report within 30 days on the actions taken to close the recommendations.

In the area of external audit, the Comptroller General has carried out some twenty studies of the state enterprises. The purpose of the studies is to rapidly identify the existence of weak internal controls.

The Government Audit Manual (1989) covers three type of audits:

- o **Financial Audit:** The objective of the financial audit is to determine the reasonableness of the financial statements of an entity, organization or activity of the government and make recommendations for the improvement of the procedures related to financial management and internal control.
- o **Operational Audit:** The objective of the operational audit is to examine, evaluate and establish the degree of efficiency, effectiveness and economy in the planning, organization, operation, internal control, and use of resources and formulate comments, conclusion and recommendations to improve the activities and materials examined.
- o **Special Examinations:** These consist in the verification, study and evaluation of specific items and financial or administrative transactions. Post facto they serve to evaluate compliance with policies, standards and programs and contain the corresponding findings, conclusions and recommendations as well as identify specific actions or situations.

The Government Audit Manual (1989) is for the use of all governmental audits but its application is not obligatory. There is also another Audit Manual (1978) that is used in parts by the Office of Special Audits.

Other documents used are:

- o **Code of Professional Ethics for Government Auditors** which is obligatory for all auditors that carry out government audits, including the private firms

- o Audit Assignment Control which is part of the work papers and documents the supervision of the audit and the amount of legal advise provided by the Legal Office to the Special Audit Office
- o Audit Advance Control which reflects the estimated completion date of each audit
- o Bi-monthly Time Report (and travel) that is used to report the number of hours worked by each individual auditor. This report shows the amount of time spend on audits and the amount of time spend on other activities.

II. RECOMMENDATIONS

As part of the assessment, each consultant was asked to prepare a list of recommendations and activities, as well as the level of effort required to strength the particular area of the financial management system which was evaluated. The following section presents the recommendations made to improve the subsystems of the financial management system, the contracting function and the role of the Comptroller General. In total, full implementation of the IFMS and CAS would entail 497 person months of technical assistance. Although full implementation of the IFMS system is outside the magnitude of this project, the recommendations are summarized below.

A. IFMS Framework

Legal Basis

- o Prepare a Code of Financial Management. This code should be the legal document which coordinates, integrates and harmonizes the basic standards for an integrated system. It should include the organization and functions of each of the subsystems of financial management. It should establish the Ministry of Finance as the central regulatory authority for the subsystems of budgeting, treasury, public credit and accounting. It should also recognize the Office of the Comptroller General as the central regulatory authority for the Comprehensive Auditing System.
- o The Code should provide the Ministry of Finance and Office of the Comptroller General the authorities and responsibilities necessary to carry out their roles. This includes the authority to issue policies, technical standards and other secondary administrative orders, which will be obligatory for all the agencies and entities of the Government. Each should also be charged with the responsibility to coordinate the financial management activities of the government.

- o The technical standards will include the basic conceptual principals of the system and will serve as guides for preparing organization materials, methodologies and procedures.
- o The governing bodies will ensure that the policies and standards issued conform to the integrated system approach.

Organization and Operations

- o Develop an Organizational Development Master Plan to reform the administrative structure currently in place so that the Ministry of Finance may carry out its responsibilities under the new Code of Financial Management. The reform should include a redefinition of the organizational structure and operations within the integrated system. The Organization Development Plan should include the governing body as well as the other entities which form part of the organizational structure of each entity.
- o The Offices of Budget, Treasury, Public Credit and Accounting should participate in the design of the new systems and materials, the implementation of the reforms and the training of the officials involved in the modernization process.

Human Resources

- o While work is being done on the global government civil service reform, institute at the Ministry of Finance, a Human Resources Management Program based on the principal of promotion by merit and as part of this, design and implement a large scale training and professional development plan (see Annex I, Scope of Work for Project Technical Advisor as well as Level of Effort Required under this component which follows). This plan should provide the personnel of the financial management system, at the central level as well as at the institutional level, the knowledge and tools necessary to carry out their roles and responsibilities. The Training Plan should include, at a minimum:
 - The new focus of the Financial Management System
 - Legislation and Regulations
 - Technical standards for each subsystem
 - Application of the new methodologies and the mechanisms and tools which may be used in budgeting, treasury, public credit and accounting, including the internal control procedures
 - Use of the computer as a tool for producing information
 - Instructions for "Instructor" formation which will cause a multiplier effect in the Training Program
 - Seminars and other events on specialized topics

Information Systems

- o Design and implement a Master Information Systems Plan for government financial management. This plan should coordinate and integrate all the information needs of the various subsystems in order to provide the necessary reports

In the preparation and implementation of the Master Plan, all the information system elements, such as equipment, technology and human resources should be considered in order to ensure the compatibility, coordination and integration of the system. The plan should satisfy the requirements of:

- The highest levels of decision makers in the Ministry of Finance
- The officials responsible for the definition and management of fiscal and economic policies as well as those responsible for development planning
- Those responsible for financial management activities in the Office of Revenues, the Office of Customs, the Office of the Budget, the Office of Public Credit, the Treasury, the Office of Government Accounting and the Office of Information at the Ministry of Finance, and at the institutional level as well.
- Those responsible for internal control in various institutions as well as those responsible for independent external control

Estimated level of Effort

The estimated level of effort for the IFMS Framework is 104 p/m as follows:

- o 48 p/m of long-term TA (Project Technical Advisor)
- o 48 p/m of long-term TA (Asst Project Officer)
- o 8 p/m of short-term TA [4 specialists in the areas of budgeting, public credit, treasury, and a legislative reform generalist for 2 p/m each - the Project Technical Advisor will contribute 2 p/m in drafting legislation in the accounting area (time allocated by the Technical Advisor is included in the 48 p/m cited above)]

Long-term TA -

The Scopes of Work for the Project Technical Advisor and Assistant Project Officer can be found in Annex I. Each consultant will provide 48 p/m of assistance.

Short-term TA -

TA to be provided will consist of approximately 8 p/m of assistance (i.e. approximately 2 p/m in each functional area) in drafting financial management legislation focusing on the areas of budget, credit, treasury, and accounting (see below - accounting p/m are included as part of long-term TA of Project Technical Advisor). The services of a legislative reform generalist will also be required for approximately 2 p/m. As noted in Annex I, TA for legislative reform in accounting will be provided by the Project Technical Advisor for a period of approximately 2 p/m.

B. Budgeting

In order to strengthen the GON budgeting subsystem, it is recommended that:

- o The Office of the Budget be established as the governing body of the budgeting system
- o A budgeting system for all of the agencies of the central government be developed
- o Mechanisms for the projection, in both the short and medium terms, of the principal macroeconomic variables and public finances that influence fiscal policy
- o A budgeting system for decentralized institutions be developed
- o Personnel of the Office of the Budget and of the other government agencies are trained in the application of the standards and methodologies designed

To establish the Office of the Budget as the governing body of the government budgeting system

- o Prepare the legal document necessary to provide the Office of the Budget with budget authority over all government institutions
- o Assess, analyze and propose a new organizational structure for the Office of the Budget
- o Prepare an organizational manual for the Office of the Budget based on the approved organizational structure

Develop a budgeting system for all of the agencies of the central government

- o Prepare the integrated budget/accounting classifications
- o Clearly define the criteria used to generate the budget categories for programs, sub-programs, projects, activities and tasks
- o Clearly define the principal types of services that each government entity provides and assign responsibilities to appropriate entity
- o Development a preliminary Budget Programming Manual
- o Develop a preliminary Budget Analysis Manual
- o Review and systematize the methodology for budget execution
- o Review and amend the procedures for the financial execution of the budget
- o Review and amend the Budget Evaluation Manual
- o Develop computer programs (with other donor assistance) for analysis and evaluation of the budget
- o Train the staff in the new procedures and methods designed

Develop mechanisms for projection, in the short and medium terms, of the principal macroeconomic variables and of public finances which influence fiscal policy

- o Design a methodology for formulation of annual government budgetary policy
- o Design a methodology for the preparation of the government budget consolidation
- o Design a methodology which permits projection, in the medium-term, of the principal variables of the government revenues and expenditures
- o Develop computer programs (with other donor assistance) for preparation of the consolidated budget
- o Develop computer programs (with other donor assistance) for the medium-term projection of the principal variables of government revenues and expenditures
- o Train the personnel of the Office of the Budget in the methodologies designed

Develop a budgeting system for the decentralized institutions

- o Draft the necessary legal document which would provide the authority for the Ministry of Finance to participate in the budget programming, follow-up, control and evaluation of all autonomous entities and state enterprises
- o Compile the basic data and information on the institutional, economic and financial organization which characterizes each institution and coordinate the collection of the information for the last three years
- o Design a work plan, for short, medium and long term activities to be carried out by the Office of the Budget in the area of decentralized institutions
- o Reorganize and strengthen the Office of the Budget's division responsible for autonomous entities and state enterprises
- o Provide regulations for developing Plans of Action and Budgets of the autonomous entities and the state enterprises, and the authority of the Office of the Budget for the formulation, follow-up and evaluation of their financial economic management
- o Issue instructions for annual financial economic programming and monthly or quarterly projections
- o Issue instructions for the periodic monitoring and evaluation of the economic management which includes activity levels and relevant fiscal-financial indicators.
- o Design a computerized information system program (with other donor assistance), based on data which incorporates fiscal, monetary and variable indicators which will permit the analysis of the evolution and projection of tariffs, salaries, prices and expenditures of state enterprises
- o Develop and implement a multi-year programming model which includes the annual integrated budget projection with the general balance, statement of results, cash budget and the principal economic financial indicators
- o Develop and implement the methodologies and basic procedures required for agreements by the central government and state enterprises to establish mutual commitment on policies for goals and the necessary objectives and actions to achieve them

Train the personnel of the Office of the Budget and of the other government agencies in the application of the standards and methodologies designed

- o Train the personnel in the Ministry of Finance and other agencies of the central government
- o Train the personnel of the autonomous entities and state enterprises which provide services

LEVEL OF EFFORT

Consultant in training and development of government budget systems. Duration: 16 months

Consultant in the design of systems, development of computer programs and training in the automatic processing of financial management. Duration: 16 months

Consultant in organization and functions of government financial management organizations

- Duration: 2.5 months

Consultant in budget systems design for autonomous entities and state enterprises which provide services

- Duration: 24 month

C. Accounting

The objective of the accounting subsystem is to classify, record, analyze and report financial transactions to management and other users on a timely basis in a format that is useful and which supports user's information needs for decision making purposes. The project will help assure the creation of an accounting subsystem which produces useful, timely, reliable financial data and applies generally accepted principles, policies, technical standards, practices and procedures to recording and reporting the government's financial transactions. The accounting subsystem is the responsibility of the Minister of Financial who is responsible for preparing the consolidated financial statements of the government and establishing the accounting standards applied by the accounting units of public sector institutions which are reporting entities of the Nicaraguan government

In order to strengthen the GON accounting subsystem, it is recommended that the following be done:

- o Establish the Ministry of Finance as the central regulatory authority of the Government Accounting and Financial Information System
- o Develop a conceptual framework for an integrated system of financial information based on underlying economic reality
- o Develop an integrated government accounting system for the central

- o government
- o Develop norms and accounting system for the autonomous entities and state enterprises responsible for providing services
- o Train personnel of the Ministry of Finance and other government entities in the application of the appropriate norms and methodologies

Establish the Ministry of Finance as the governing body of the Government Accounting and Financial Information System

- o Assist in the preparation of the legislation which establishes the Ministry of Finance as the central regulatory authority and the Office of Government Accounting as the governing body for accounting and financial information in the government.
- o Assess, analyze and prepare the new organizational structure for the Office of Government Accounting within the Ministry of Finance.
- o Prepare an organizational and operational manual for the Office of Government Accounting.

Develop a conceptual framework for an integrated system of financial information based on underlying economic reality

- o Define the fundamental characteristics of an integrated government accounting system
- o Systematize the principal information needs, points of entry and principal processes

Develop an integrated government accounting system for the central government

- o Prepare the regulations for the accounting system
- o Design the chart of accounts and tie into budgetary and economic classifications
- o Identify the information that the accounting entry control centers maintain and integrate it into the data base
- o Design the reports for the accounting system and design new formats for the capture and entry of information
- o Prepare the model for the annual budget report reflecting account classifications compatible with the revised accounting chart of accounts (see

above), its contents and the methodology for its preparation

- o Prepare the Budgetary/Accounting Transaction Recording Manual for the Office of the Budgeting
- o Prepare the Government Accounting Standards Manual
- o Design the automated system "(with other donor resources) to implement in the Ministry of Finance - AID assistance will be limited to the following activities:
 - conducting a computer needs assessment (hardware and software);
 - developing and implementing a Master Plan for Information Systems;
- o Review the implementation of the standards and methodologies

Develop norms and accounting system for the autonomous entities and state enterprises responsible for providing services

- o Prepare the Budgetary/Accounting Transactions Manual for not-for-profit autonomous entities using a compatible chart of accounts for budget and accounting
- o Design the "Guide for the Development of Accounting Manual" for state enterprises which provide services
- o Conduct a computer needs assessment (hardware/software) for the not-for-profit autonomous entities.
- o Design the methodology for the conversion of the various financial statements of the autonomous entities and state enterprises into a uniform presentation.
- o Design the methodology for the development of the Consolidated Financial Statement of the Government.
- o Design the methodology for the presentation of the government accounts using an accrual basis of accounting
- o Provide support in the implementation of the standards and methodologies developed

Train the personnel of the Ministry of Finance and other government entities in the application of the appropriate norms and methodologies

- o Train the employees and instructors in the Ministry of Finance and the central government entities
- o Train the employees and instructors in the autonomous entities and state enterprises which provide services

Level Of Effort (Although 98 p/m are required in total, a reallocation of person months was made between consultancies subsequent to completion of field work - see Annex F -Table VI)

- Consultant in integrated accounting and financial information systems.
Duration: 39 months
- Consultant in integrated government accounting systems at the decentralization level: 8.5 months
- Consultant in integrated accounting systems for autonomous entities and state enterprises which provide services: 14.5 months
- Consultants in organizations and operations of government financial management agencies. Duration: 2.0 months
- Consultant in the design and training of the development of government consolidated accounts and financial statistics as mandated by the International Monetary Fund. Duration: 13 months
- Consultant in design and training of information systems and programming for the accounting procedures and the government financial information.
Duration: 22 months

D. Public Credit

In order to strengthen the public credit system of the GON, it is recommended that:

- o National policies and strategy on debt coordination should be formulated by the government organization which has the principal responsibility for the economic management of the government and the legal, institutional and administrative authority for the management of external debt.
- o The necessary standards and procedures should be developed based on existing and proposed legal documents.

- o Institutional functions for debt administration should be coordinated.
- o The obligations and authorities of each one of the entities involved in the administration of debt financing should be clearly defined.
- o An integrated system of information that responds to the needs of debt management, should be established.
- o Strengthen the Office of Public Credit in the Ministry of Finance.

Specific Activities

- o Formulate, with the Central Bank, an external debt strategy for Nicaragua.
- o Normalize the operations of the Office of Public Credit, providing it with the appropriate legal force and establishing its authority and responsibilities.
- o Provide the Office of Public Credit with the appropriate organizational and operational regulations.
- o Centralize in the Ministry of Finance loan administration activities.
- o Prepare a staffing manual which clearly defines the responsibilities of each position, the requirements of the position, definition of duties and description of functions.
- o Install a computerized system of data (using other donor resources) which includes the flow charts that indicate the routines or process that should be followed for the input of data, processing the data and producing reports.
- o Develop the procedural manuals which will serve as guides for the reception of documents, review, analyses and production of data to be processed.
- o Train personnel in the functions of contracting, utilization, debt servicing, recording and control of public debt as well as in knowledge of capital markets.

Level of Effort

In order to carry out this project, the following assistance is required:

- o An international consultant with a minimum of 5 years experience in the management of public credit. This person will provide assistance in the preparation of the standards and procedures. Duration: 1 year

- o A national consultant with a minimum of 5 years of experience in public credit for the preparation of operational manuals. Duration: 1 year
- o An international consultant with a minimum experience of 5 years in Public Credit. This person will provide assistance in preparing the procedure manual with the detailed design of all the step required for debt operations. Duration: 2 years
- o An international consultant for 6 month to develop the necessary training programs
- o An international consultant in information systems, preferably in public credit, for the design and implementation of the system. Duration: 3 years

E. Treasury

In order to strengthen the Treasury, it is recommended that:

- o A Code of Financial Management is developed with the appropriate chapter covering Treasury as a subsystem of an integrated financial management system.
- o The Treasury become the governing body for the treasury subsystem in all parts of the government and its administrative structure and operations reflect its new responsibilities.
- o Methodologies are developed which coordinate and integrate the distinct policies and procedures used in the operations of the treasury and documented in a Procedural Manual which corresponds to the role and responsibilities of the Treasury. Incorporate the necessary internal controls and implement them in the appropriate entities.
- o A set of policies, standards, and procedures for the administration of human resources be prepared which would provide a career path for personnel of the Treasury.
- o Develop an Information Systems Master Plan (with other donor resources) that coordinates and integrates the treasury system with the other subsystem of the integrated financial management system. Ensure that the Plan is designed to service multiple information needs.

Activities

Develop a Code of Public Administration with the appropriate chapter covering the Treasury

as a subsystem of an integrated financial management system.

- o In coordination with the Technical Secretariat, organize inter-institutional working groups with representatives from: Offices of the Budget, Treasury, Public Credit and Government Accounting from the Ministry of Finance, the Office of the Comptroller General and others as needed
- o Prepare a work plan for the preparation of the chapter on Treasury in the Code of Public Administration
- o Implement the work plan
- o Present the draft for approval by the Executive Commission. The Commission will present the Code to the National Assembly
- o Once the Code is approved, participate in its application

Ensure that the Treasury become the governing body for the treasury subsystem in all parts of the government, strengthening its administrative structure and operations in line with its new responsibilities

- o In coordination with the Technical Secretariat, establish an inter-institutional working group for the preparation of the organizational and operational structure reform of the Treasury
- o Prepare an Organizational Development Plan and present to the Minister of Finance and Executive Commission for comment and discussion
- o Establish the strategy and stages of implementation of the Organizational Development Plan and select the priority areas for implementation
- o Implement the Organizational Development Plan in conformity with the priorities established. It is suggested that the first step should be the preparation, discussion and approval of the Operational Regulations of the Treasury
- o Prepare the methodologies, guides, and instruction manuals to assist the Ministries, the decentralized and autonomous agencies as well as the state enterprises, in setting-up the structure and operations of the treasury units in these institutions
- o Continue to implement the Organizational Development Plan. The first step should be the preparation of the operational regulations of the treasury units in the Ministries, the decentralized and autonomous entities and the state enterprises which are considered priorities.
- o Prepare the methodologies, guides and instructions for the treasury units at the regional, sectional and local levels

Develop the methodologies which coordinate and integrate the policies and procedures used in treasury operations and document them in a Procedural Manual which corresponds to the role and responsibilities of the Treasury. Incorporate the necessary internal controls and implement them in the appropriate entities.

- o In coordination with the Technical Secretariat establish a working group to develop a program to identify, prioritize and design the administrative policies and procedures for the Treasury
- o Prepare the program and present it for approval to the Minister of Finance and the Executive Commission

- o Implement the administrative program based on a prioritized list. Document the policies and procedures through instruction manuals
- o Design a methodology to assist the treasury units in the various ministries, autonomous and decentralized agencies and stated enterprises, in adopting these policies and procedures. Do this through the preparation of specific manuals
- o Continue the implementation of the program for the treasury administrative policies and procedures while preparing, approving and issuing the required instructions for the other areas of Treasury
- o Review and evaluate the application of the various outputs and combine together to make the Treasury Procedures Manual. Have this document approved by the Minister of Finance and the Executive Commission
- o Assist the decentralized and autonomous entities and state enterprises in the preparation of their corresponding treasury instructions and the application and evaluation the instructions

Prepare a set of policies, standards, and procedures for the administration of human resources which provides a career path for personnel of the Treasury

- o Prepare the Human Resource management Regulations for officials of the Ministry of Finance and Treasury
- o Create a Training Center within the Office of the Comptroller General which specializes in the formation and professional development of the human resources assigned to government financial management
- o Carry out an assessment of the training needs and prepare a work plan
- o Prepare the materials necessary for the training courses in all areas including those needed by the Treasury
- o Implement the Training Plan and carry out the courses for government officials and training of instructors
- o Continue the implementation of the Training Plan and include the officials of the ministries and government agencies with Treasury responsibilities
- o Evaluate the results of the training, taking into account the goals and objectives of the plan and the practical realities of the training

Develop an Information Systems Master Plan that coordinates and integrates the treasury system with the other subsystem of the integrated financial management system. Ensure that the Plan is designed to service multiple information needs.

- o In coordination with the Technical Secretariat, establish a working group to prepare the Information Systems Master Plan
- o Define the information needs of the various users. Consider timeliness, utility and the follow-up needed for data processing
- o Inventory the different information resources which are available in the various Offices of the Ministry of Finance and determine if additional resources are needed
- o Carry out the plan and implement the integrated information systems, using existing resources and according to the established priorities
- o Look for ways to obtain the additional resources needed
- o Continue to carry out the master plan, evaluate the results and make the necessary adjustments
- o Incorporate the new resources into the system
- o Continue the development and use of the new systems

Estimated Level of Effort

The estimated level of effort for this system is:

- o 52.5 p/m of long-term assistance
- o 7.0 p/m of short-term assistance

The technical assistance would be carried out by the following types of consultants:

- o Consultant with administrative or fiscal law experience with at least 10 years experience in the preparation of public administration or as an advisor in the area in Latin American Ministries of Finance. Duration: 2 months
- o Consultant with degree in Social Sciences, Economics, Administration or Accounting with at least 15 years experience in Public Financial Administration in Latin America and experience in the programming, organization and design of administrative or financial systems. Duration: 34.5 months

- o Consultant in Information Systems with degree in engineering or information systems with at least 10 years experience in the planning, analysis and use of integrated information systems. Duration: 18 months
- o Consultant in organization and development of training programs with at least 10 years experience in training, preferably in Latin American public administration entities. Duration: 5 months

All consultants must speak and write Spanish fluently, work well as part of a team and have the ability to relate to the highest level of government officials.

F. Administrative Contracting and Procurement

In order to strengthen the administrative contracting and procurement function, it is recommended that the following objectives be achieved:

- o Establish the general contracting and procurement standards to be applied in all government entities in Nicaragua.
- o Train the officials responsible for government contracting, in the shortest time possible, to carry out this function.
- o Strengthen the Office of Procurement based on an evaluation of all of its activities and responsibilities

Establish the general contracting and procurement standards to be applied in all public sector entities in Nicaragua.

- o Modify and clarify the regulations currently in effect. Focus on specific areas.
- o Prepare administrative procedures that meet the requirements of the regulations.

Train officials responsible for government contracting, in the shortest time possible, to carry out this function

- o Sponsor at least 5 seminars, of no more than 2 days duration, for groups of 20 officials to present the regulations
- o Prepare a training program which covers both the theoretical and practical aspects of administrative contracting

- o Sponsor at least 2 courses, of 40 hours each, for 25 participants per course. The methodology used should be co-participating with individual and group activities, and preparation of practice documents for use in the entities the participants represent.
- o Prepare a training plan and carry out training for officials of the Office of Procurement as well as for government officials responsible for procurement in other government entities.

Strengthen the Office of Procurement based on an evaluation of all of its activities and responsibilities

- o Carry out an assessment of the organizational structure, operations, work procedures, human resources, physical infrastructure and relationship with the Ministry of Finance and other government entities that provide services to the public. Use the assessment to design a procurement subsystem which strengthens the Office and looks for ways to improve the agility, security and control of contracting and procurement.

Implement the procurement subsystem, including its organizational and operational structure, internal regulations, procedures manuals and automating of processes

- o Establish the "Central Register for Suppliers and Contractors of the Government"

Level of Effort

Short-term assistance will be provided to the Office of Procurement to strengthen its capability to contract and procure materials, supplies and equipment for the Government of Nicaragua. An estimated 6 person months of technical assistance, over a period of 3 months will be provided.

- o Consultant with at least 5 years experience in the planning, programming and implementation of public works projects. Experience in administrative contracting in Latin American or Caribbean countries. Knowledge of costs and budgeting. Experience as contracts instructor.
- o Consultant specializing in purchasing, with a minimum of 5 years experience in programming of government materials and equipment purchasing. Knowledge of inventory and warehouse management, customs and external commerce. Demonstrated experience in government administration procedures.

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G. Comprehensive Audit

The recommendations for strengthening the area of control and audit are:

- o Incorporate in a Code of Financial Management the components necessary to establish norms for the operation of the Office of the Comptroller General, on a coordinated, integrated basis consistent with the government's activities.
- o Reorganize the structure of the Office of the Comptroller General converting it into the governing body of the system of control and audit and ensure that the Office complies with the pertinent legal requirements.
- o Prepare a set of policies, standards, processes and procedures for the issuance, implementation, follow-up and evaluation of control and audit in the public sector including those required by law.
- o Ensure that the personnel of the Office of Comptroller General, both profession and non-professional staff, are sufficiently trained to carry out their responsibilities
- o Develop a Master Plan for Information Systems for the Office of the Comptroller General.
- o Develop a Competitive Remuneration/Benefits Plan

Incorporate in a Code of Financial Management the components necessary to establish norms for the operation of the Office of the Comptroller General, on an integrated basis consistent with the government's activities

- o In coordination with the Technical Secretariat, organize a working group with representatives of the Comptroller General's Office

The Working Group will prepare a work plan to prepare the chapter of the Financial Management Code that is related to control and audit.

- o Carry out the work plan described above.
- o Present and discuss a draft for the Code with the Comptroller General for approval and presentation to the National Assembly.
- o Once the Code is approved, participate in its application.

Reorganize the structure of the Office of the Comptroller General converting it into the governing body of the system of control and audit and ensure that the Office complies with the pertinent legal decrees.

- o In coordination with the Technical Secretariat, organize a working group with representatives from the Comptroller's General Office for the preparation of an internal organization structure
- o Propose an organizational structure and present it for approval to the Comptroller General
- o Develop an implementation strategy for the proposed structure and define the priority areas for implementation
- o Implement the organizational structure in conformity with the priorities defined. It is suggested that this begin with the preparation, discussion and approval of the Functional Operating Regulations of the Office of Comptroller General

Prepare a set of policies, standards, processes and procedures for the issuance, implementation, follow-up and evaluation of control and audit in the public sector including those required by law.

- o In coordination with the Technical Secretariat, establish a working group of professionals from the Comptroller General's Office.
- o Develop a work plan to identify, prioritize, design and implement the processes and procedures required by the law. The plan should include development of an inventory of the Universe Subject to Control of the Office of the Comptroller General, a Risk Analysis, an Annual Work Plan and the related Monthly Plans of the different offices of the Office of the Comptroller General.
- o Present the work plan for review and approval by the Comptroller General.
- o Implement the approved work plan for formalizing policies, standards, processes and procedures.
- o Test the policies, standards, processes and procedures designed and obtain final approval.

- o Provide technical assistance to the internal auditing units of various governmental entities in the evaluation of their Internal Control Standards.

Ensure that the personnel of the Office of Comptroller General, both profession and non-professional staff, are sufficiently trained to carry out their responsibilities

- o In coordination with the Technical Secretariat, establish a working group of professionals from the Comptroller General's Office to assist the Financial-Administrative Division in developing a work plan
- o Prepare a work plan and present it for approval to the Comptroller General
- o Prepare Personnel Regulations applicable to professional and administrative staff
- o Create and organize a Training Center for professional development in governmental control and audit
- o Carry out an assessment of the training needs of personnel, in light of the Work Operating Plan and, in accordance with the results of the assessment, prepare the corresponding Training Plan
- o Carry out the Training Plan

Develop a Master Plan for Information Systems for the Office of the Comptroller General

- o In coordination with the Technical Secretariat, establish a working group with representatives from the Comptroller General's Office to develop the Master Plan for Information Systems
- o Implement the Master Plan

Level of Effort (Although 81 p/m are required in total, an allocation of person months between consultancies was made subsequent to completion of field work - see Annex F, Table VI)

- o Consultant with university degree in Social Sciences, Economics, Administration or Accounting, or professional experience of at least 15 years in Supreme Audit Institutions of Latin American and in the programming, organization and design of administrative/financial systems and procedures. Duration: 48 months

- o Consultant in computerized systems auditing with university degree and postgraduate students in computer sciences. At least 10 years experience in systems auditing, audit of development of information systems, analysis of integrated information systems and experience in computer systems and data bases. Duration: 12 months
- o Consultant in organization and development of training programs with degree in public accounting, administration, economics, and/or at least 10 years of experience in training, preferably in government financial management or auditing entities in Latin America. Duration: 12 months
- o Consultant with experience in training instructors, with degree in education and experience in this area in Latin America. Duration: 2 months
- o Consultant in control of public works investments with professional title of engineer, at least 15 years experience in public works control, government accounting and experience in supreme audit institutions in Latin America. Duration: 4 months
- o Consultant in the control of public revenues with professional title of public accountant, economist, administrator, or at least 10 years experience in the field. Duration: 3 months

ANNEX E
ECONOMIC ANALYSIS

E. Economic Analysis

Measuring the social profitability of improving a government's infrastructure in a particular area, such as financial management capability, is difficult. In the case of Nicaragua it is extremely difficult. The assumption of the project is that by assisting the government to more effectively and efficiently manage its scarce resources, it will help to:

- o stabilize the democratically elected government;
- o provide the structural reforms necessary to promote private sector led investment and growth; and
- o provide for the delivery of goods and services to the population.

Although far smaller in size than it was under Sandinista rule, the public sector in Nicaragua remains a major component of Nicaragua's economy -- in terms of national expenditure, investment, and employment. From an economic perspective, it is therefore essential that Government resources be used as efficiently as possible.

During the years of Sandinista rule, there was generally little accountability for the use of resources among the various components of the GON. The Central Bank, for example, frequently extended credit to state enterprises that did not repay their obligations. At the same time, prices charged by government enterprises often bore little relation to their operating costs -- requiring large transfers of resources from the Central Government. Under these circumstances, there was little reason for the GON to develop a modern system of accounting or financial management.

This system of accounting, inherited from the Sandinistas, is clearly inadequate to meet the GON's current requirements. The accounting systems used by state enterprises other than the public utilities and the social security institute have often been so untimely and incomplete that it has been difficult or impossible to evaluate their performance. And even the financial data of the Central Government and the public utilities are, at best, only good approximations. With the installation of an accounting system the GON will be able to accurately record historical financial transactions which will enhance its capability to adequately control, monitor, and account for all public resources. This system will also enable the GON to improve its budgeting system by creating an historically starting point for developing budgetary data and thereby will allow the GON to more efficiently plan for the use of its scarce resources.

The FMR project assistance in the area of control and audit should improve the Government's ability to potentially reduce fraud, waste and abuse by establishing an internal control system which will contain the requisite checks and balances to reasonably ensure adequate accountability over GON resources.. This, in turn, should improve the public's perception of the efficacy of a democratic system of government.

Annex F
Budgetary Details and Notes

FINANCIAL MANAGEMENT REFORM

Appendix F

Illustrative Budget Detail

Category	Year 1	Year 2	Year 3	Year 4	Total
1. Mission-Contracted TA					
Assistant Project Officer (FSN)					
Base Salary	10,000	20,000	20,000	10,000	60,000
Bonus and Fringe (month's salary)	850	1,700	1,700	850	5,100
Transport Allowance and Perdiem	900	1,800	1,800	900	5,400
Meal and Medical Allowances	750	1,500	1,500	750	4,500
Sub-Total	12,500	25,000	25,000	12,500	75,000
2. IFMS Framework					
A. Secretariat Technical Director					
Base Salary (\$6,000 pm)	36,000	72,000	72,000	36,000	216,000
Post Differential (15% of salary)	5,400	10,800	10,800	5,400	32,400
Overhead & Fringe (75% salary)	27,000	54,000	54,000	27,000	162,000
Family Travel (four people)	8,000	4,000	4,000	8,000	24,000
Household and Shipping	10,000	0	0	10,000	20,000
House Rent and Rehab	24,000	24,000	24,000	12,000	84,000
Utilities and Security	6,900	13,800	13,800	6,900	41,400
School Fees (2 @ \$3,700 pa)	3,700	7,400	7,400	3,700	22,200
Insurance	1,500	3,000	3,000	1,500	9,000
Per Diem (10 d intl, 20 d local)	1,550	3,100	3,100	1,550	9,300
Work Travel (1 Intl, 4 local)	1,400	2,800	2,800	1,400	8,400
G & A and Fees (15%)	18,800	29,000	29,000	17,000	93,800
Sub-Total	144,250	223,900	223,900	130,450	722,500
B. Accounting Specialist (as above)	144,250	223,900	223,900	130,450	722,500
C. Short-Term Accounting TA					
Breakdown: Salary (\$330 @ 22 pd)	7,260				
Overhead and Fringe (75% of salary)	5,445				
Per Diem (\$177 @ 30 d)	5,310				
Travel and Transport	1,500				
Misc (communic, insur, printing)	800				
G & A and Fees (15%)	3,045				
Sub-Total (per month)	23,360				
Total 31pm (6yr1, 10yr2&3, 5yr4)	140,160	233,600	233,600	116,800	724,160
D. Auditing Specialist (as in A and B)	144,250	223,900	223,900	130,450	722,500
E. Short-Term Auditing TA (as in C)					
Total 25pm (4yr1, 9yr2&3, 3yr4)	93,440	210,240	210,240	70,080	584,000
F. Contractor Administrative Unit					
Admin. Asst. (\$1,100 per month)	6,600	13,200	13,200	6,600	39,600

FINANCIAL MANAGEMENT REFORM
Illustrative Budget Detail

Appendix F

Category	Year 1	Year 2	Year 3	Year 4	Total
Bilingual Secretary (\$800 per month)	4,800	9,600	9,600	4,800	28,800
Equipment (computer & peripherals, calculator, printer, phone, photocopier, typewriter, furniture, etc.)	10,000	0	0	0	10,000
Office Supplies & Misc @ \$200 pm	1,200	2,400	2,400	1,200	7,200
Communications @ \$200 pm	1,200	2,400	2,400	1,200	7,200
Vehicle (econ. sedan & shipping with maintenance @ \$200 per month)	15,200	2,400	2,400	1,200	21,200
G & A and Fees (15%)	5,900	4,500	4,500	2,300	17,200
Sub-Total	44,900	34,500	34,500	17,300	131,200
3. Training and Public Awareness					
A. Training Courses					
Local Seminars in A/C and Audit (8 pa)	0	32,000	32,000	32,000	96,000
Conferences (2 pa)	0	30,000	30,000	30,000	90,000
Public Awareness Campaigns	0	32,000	32,000	32,000	96,000
4. Equipment (Computer and Software)	50,000	0	0	0	50,000
5. Evaluation and Audit					
A. Evaluation (in yr 2, 2 pm)	0	46,720	0	0	46,720
B. Audit (funded through Trust Fund)	0	0	0	0	0
7. Contingency (2.5% of 1-5)	19,350	32,900	31,750	17,550	101,550
8. Inflation (4% yr2, 8% yr3, 12% yr4)	0	53,946	104,063	79,860	237,870
Grand Total	793,100	1,402,606	1,404,853	799,440	4,400,000

Notes on Illustrative Budget

The budget is based on an expenditure timeframe of three years, starting six months after an agreement is signed with the GON and finishing about six months before the official PACD. This timeframe reflects the normal period required for contracting and for any delays in activity completion.

1. Mission-Contracted Technical Assistance

Assistant Project Officer - Rates shown are at the local FSN 11 or 12 level for regular AID FSN staff. The period is for 36 months, starting halfway through the first year. Bonus and Fringe Benefits are equal, over a year, to one month's salary. Local per diem outside Managua is \$55 per day. Annual in-country per diem needs are estimated at 20 days per year. Annual transport/travel expense is estimated at \$700 per year. Meal and medical allowances (as per regular FSNs) are budgeted at \$1,500 per year. If a non-FSN is hired as a PSC, overall costs could double or treble, depending on salary history and where the individual is recruited.

2. Principal Contract - IFMS/CAS Framework

A. Secretariat Technical Director - It is expected that the Mission will contract with an institutional contractor for all technical assistance and training. The Secretariat Technical Director will start about six months after the Project Agreement is signed. All costs are shown at fairly standard rates and are taken from current levels of support for comparable projects and individuals hired outside Nicaragua (U.S. or third country national). Overhead and Fringe Benefits (75%) and G&A and Fees (15% of all costs) are taken from a "typical" current contract now in progress. Rates and percentages can vary considerably. Post Differential is the rate currently being applied (15%) to salaries here in Nicaragua. Family travel is an estimate of costs from anywhere in the U.S., including leave of all types. Household and shipping assumes that some allowance is made to purchase household goods and that all shipping costs (as per AID regulations) can be met, both on arrival and on departure. House rent is estimated at \$2,000 per month, with security construction, repairs, etc.. at a one-time cost of \$12,000 in the first year. Utilities are estimated at \$650 per month and security at \$500 per month (around \$17 per day through the U.S. Embassy where a guard covers three residences). School fees of \$3,700 per annum for each of two children reflects current costs at the American Nicaraguan School. Insurance is an estimated amount of \$250 per month per family. Local per diem outside Managua is \$55 per day. For twenty days per year, this equals \$1,100. An average of \$200 per day for ten days outside Nicaragua is used. Work travel is estimated at one international trip per year at \$2,000 and four local trips at \$200 each. Supplies are estimated at \$50 per month.

B. Accounts Specialist - All costs are equal to those shown

above as long-term TA under the principal contract.

C. and E. Short-Term Advisors - The salary level is shown at the FS-01 level for an AID employee and within the allowable level for consultants. The percentages (overhead and fringe, G&A and fees) follow those shown in 2A. An illustrative list of short-term TA assignments and personnel is shown in the following table, first for the Accounting subsystem (Ministry of Finance) and secondly for auditing (Office of Comptroller General).

Short-Term Accounting TA

Time Period	Title	Task
10 pm	Training Advisor	Train GON accountants in new financial systems.
6 pm	Computer/Info Systems Specialist	Software needs assessment and system integration
12 pm	Consolidation Specialist	Standardization and consolidation of financial reporting
3 pm	Accounting Manual Writer	Preparation of manuals for accounting system

Short-Term Auditing TA

Time Period	Title	Task
6 pm	Computer/Info Specialist	System integration and audit of automated accounting systems.
10 pm	Auditing Trainer	Training of GON auditors.
4 pm	Public Works Auditor	Preparation of auditors for specialized GON entities and contracted works.
5 pm	Auditing Trainer of Trainers	Prepare instructors for on-going training of GON auditors.

D. Auditing Specialist - The long-term TA is shown at exactly the same terms as the Technical Director and Accounts Specialist.

E. Contractor Administrative Unit - The administrative unit is designed to provide support for all contractor personnel. Principal tasks are logistics, project-related reporting and book-keeping, and communications. It is assumed that the unit will employ an administrative assistant, who will maintain accounts, schedules and general administrative tasks for all contractor personnel. The salary is projected at \$1,100 per month. The person must be bilingual. A bilingual secretary is also required, at a salary of \$800 per month projected. These salaries include benefits. Basic office equipment will be purchased for the unit at a one-time estimated cost of \$10,000.

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Office supplies and communications are estimated at \$200 each per month. It is assumed that the administrative unit will be provided office space and utilities at MIFIN. Purchase of a vehicle for the contract team is projected at a total cost (FOB) of \$14,000 for an economy sedan or van. Maintenance costs are estimated at \$200 per month. Operating costs are shown in the work travel line of long-term contractor personnel. G&A and fees of the contractor are shown at 15% of all costs.

3. Training and Public Awareness - A series of training activities will be conducted through the Project and managed by the institutional contractor, both for Accounting and Audit purposes. 2,000 person days of training at \$16 per person for years 2, 3, and 4 are estimated. Funding for participation in two international conferences per year (one in auditing, one in accounting) for six to eight persons (roughly \$3,750 - 5,000 each) is also estimated. Public awareness campaigns in GON accounting and audits will be conducted on a national level. Public fora in various towns, publications, announcements through the media, printing of manuals and brochures, and local seminars (on such topics as anti-fraud and corruption, reduction of waste and abuse in the government, and ethics) will be funded, with the combined costs estimated at \$32,000 per year.

4. Equipment - Computers and related software for the OCG will be procured. Ten Pcs with a LANS system, two laser printers, spares, and auditing-related software are to be purchased at an estimated cost of \$50,000 in year 1.

5. Evaluation and Audit - An evaluation is planned for the end of the second year, conducted by two individuals for about one month each. Costing is done on the same basis as short-term TA under the principal contractor (\$23,360 per person month). Any audit requirements will be financed through the GON/USAID Trust Fund or the cognizant U.S. agency.

6. Contingency - A very moderate contingency factor of 2.5% is calculated against all costs. Given the preliminary phase of the project activities, a higher degree of flexibility would be desirable, but additional resources are not available at this juncture.

7. Inflation - Local inflation is "programmed" by the GON at 12% per annum in the exchange rate of cordobas to U.S. dollars, but very little local costs will be paid directly. The U.S. inflation rate has generally been around 4% in recent years. As costs should not increase substantially over estimates and historical figures in the first year, no inflation is charged. In the second year a conservative figure of 4% on all costs (items 1-7) is charged. This is compounded in the third and fourth years, at 8% and 12% respectively.

**ANNEX G
INITIAL ENVIRONMENTAL
EXAMINATION AND ENVIRONMENTAL
THRESHOLD DECISION**



INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Managua, Nicaragua
 Project Title: Public Sector Financial Management
 Improvement
 Project Number: 524-0330
 Funding: \$ 4,000,000
 Life of Project: August 1992 to July 1996
 IEE Prepared By: David A. Lieberman
 USAID/Nicaragua

"

RECOMMENDED THRESHOLD DECISION

A. Project Description

The purpose of the Public Sector Financial Management Improvement Project is to promote the financial management capability of the Government of Nicaragua (GON) by restoring domestic and international confidence in the integrity and competence of the government to effectively plan, administer and control public resources. To achieve this purpose the Project will provide technical assistance, equipment and training to strengthen the GON's financial management, procurement and audit oversight functions, and to promote accountability of government officials in managing public resources in conjunction with the Ministry of Finance and the Controller General of Nicaragua.

B. Recommendation

It is the opinion of USAID/Nicaragua that the Project does not have an effect on the natural and physical environment. The provision of technical assistance, funding and limited commodity support to the Ministry of Finance and the Controller General qualifies for a Categorical Exclusion under CFR 216.2(c)(2)(i), "Education, technical assistance, or training activities except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc.)". Based on the fact that the planned assistance does not include construction or any other activity that would directly affect the environment, it is recommended that no further environmental study be undertaken for these activities and that a "Categorical Exclusion" be approved.

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Concurrence:

Janet C. Ballantyne
Janet C. Ballantyne
Director
USAID/Nicaragua

Date:

MAY 19, 1992

Drafted: PDIS: DLieberman:
Cleared: PDIS: JCloutier:
ARDO: RConley:
OFIN: RLayton:
DDIR: KGSchofield:

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Date: 5/15/92
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Date: 5/19/92

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INFO RUEHGT/AMEMBASSY GUATEMALA 0972
BT
UNCLAS STATE 180816

AIDAC MANAGUA FOR DAVID LIEBERMAN, GUATEMALA FOR ROCAP

E.O. 12356: N/A

TAGS:

SUBJECT: ENVIRONMENTAL THRESHOLD DECISION FOR PUBLIC
SECTOR FINANCIAL MANAGEMENT IMPROVEMENT (524-0330)

FOR LAUREN WILLIAMS

REF: USAID/A FAX, MAY 20, 1992, LIEBERMAN TO WILSON

1. IAC DEPUTY CHIEF ENVIRONMENTAL OFFICER, JOHN WILSON,
HAS REVIEWED AND HEREBY APPROVES MISSION REQUEST FOR A
CATEGORICAL EXCLUSION FOR SUBJECT PROJECT.

2. IEE NUMBER IS IAC-EL-92-14. COPY OF ENVIRONMENTAL
THRESHOLD DECISION IS BEING FORWARDED TO MISSION FOR
INCLUSION IN PROJECT FILES. WALTER

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Action Taken:
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ANNEX H
NPD APPROVAL MESSAGE

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR/LAC

FROM: LAC/CEN, Stacy Rhodes *SR*
SUBJECT: Review of FY 1993-94 Action Plan for Nicaragua

Action Requested: Approval of the Nicaragua Action Plan for 1993-1994

Discussion: The FY 1993-94 Action Plan Review for Nicaragua was chaired by AA/LAC James Michel on January 21, 1992. The Mission was represented by Director Janet Ballantyne and Program Officer Todd Amani. AA/LAC opened the review with strong words of praise both for the extraordinary performance of Nicaragua during its first year of economic stabilization, and for the excellent support the Mission has provided for these achievements under the leadership of Director Ballantyne. AA/LAC underlined the challenge and frustration of working with this newly democratic country on the verge of economic growth at a time when foreign aid resources are shrinking within the region. The consensus of the review was that A.I.D. must continue to support Nicaragua's efforts toward economic growth while recognizing the reality of today's foreign assistance budget.

ISSUE: Is it appropriate for USAID/Nicaragua to be working towards seven strategic objectives as described in the Action Plan? Given possible cuts from planned funding levels, what priorities should be applied to budgetary decisions relative to the new starts/amendments programmed for FYS 1992-94 (particularly those funded with ESF)?

DECISION: The Mission should not include increased participation in the economy as a separate strategic objective but rather track performance under this theme within the context of increased competitiveness and diversification of the economy. While A.I.D. would like to see Missions focusing scarce resources on fewer objectives, the Bureau recognizes the special circumstances of this new and very visible program and therefore approves six strategic objectives for the Nicaragua program. The AA/LAC expressed disappointment with the low level of multilateral and other bilateral donor support that appeared available at this point in time. As U.S.G. resources appear to be declining in the region, additional IFI funds will be needed to sustain the stabilization process. LAC/DPP will work with STATE/ARA/ECP to review overall levels of IFI resources going to Central America in general and to focus attention on the need to increase flows to Nicaragua. Washington agencies have been asked to help in the process of donor mobilization. In this regard the recent

Consultative Group meeting on Nicaragua represented a very positive effort at increasing other donor flows to Nicaragua.

ISSUE: Is LAC'S country performance rating of Nicaragua an accurate assessment of the progress achieved by the GON?

DECISION: The LAC Bureau will refine the rating process to ensure that Missions have sufficient opportunity to provide what they consider to be accurate and timely data for the decision making process. Application of the performance rating system will be linked more closely to real time budgets rather than considering current performance to determine DA levels two years down the line. The Mission is encouraged to work with DPP to ensure that the most current and accurate performance information is available for consideration.

ISSUE: Can the current planning levels for the FY 1993-94 PL-480 Title III Program (\$17 million annually) be increased to meet balance-of-payments and food security needs as defined by the Mission (\$25-30 million per year)?

DECISION: The LAC Bureau recommends that the commodity mix be made as inclusive and expansive as is possible; FHA informs us that currently there are no policy restrictions on including non-food commodities in the mix, and tallow has specifically been included in another program. When the Mission submits its proposal for Title III, it must make the linkage to food security regardless of commodity type. Regarding tallow specifically, FHA cannot guarantee its availability for FY 93 as the FY 93 docket will not be determined until the beginning of the fiscal year.

ISSUE: Will there be a continuing need for OAS/CIAV activities in Nicaragua? If so, what should these activities include and how will these activities be funded?

DECISION: The LAC Bureau agreed with the Mission that there may still be a need for the protection and verification services offered by CIAV after the present expiration date of June 1992. We understand an additional \$3.1 million is being made available for the reduced program this fiscal year. If the GON would like to see CIAV/OAS broaden its scope beyond verification and protection services and to extend activities beyond June 1992, we believe it should explore the possibility of locating other donor funding for those efforts. Indeed, the time for a multi-donor effort at funding OAS activities is upon us and we should support a more appropriate division of burdensharing for these local programs.

PORTFOLIO REVIEW:

A. FY 1992 PROJECTS

1). Employment Generation sub-project (0301.03): Mission is granted programmatic concurrence to develop this amendment and

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the Mission Director is delegated authority to approve final documentation. It is understood that this amendment is a bridge to GON/other donor financing and represents the final phase of this sub-project.

2). Decentralized Health Services (0327): Mission is granted programmatic concurrence to develop this six-year project and authority to approve final documentation is delegated to Mission Director. Project design should address the commitment of MINSA to decentralize and the possible role regions will play in the decentralization process. To avoid overlap and strengthen donor cooperation in this sector, the Mission is encouraged to coordinate closely with other donors in the health sector.

3). Public Sector Financial Management Reform Project (0330): LAC grants programmatic concurrence to the Mission to develop this three-year project.

B. FY 1993 PROJECTS

1). Economic Recovery and Development (0333): LAC agrees with the overall intent and focus of the proposal. Issues relating to policy reform agenda and implementation modalities will be revisited next fiscal year when Mission Concept Paper is reviewed. The Mission's proposal will be expected to be consistent with overall agency policy at that time.

2). Economic Policy Analysis (0339): Programmatic concurrence to develop this five-year project was granted. It is understood that INCAE will be eligible to compete for contracts under this project or other USAID activities.

3). Private Sector Support Amendment (0317): Programmatic concurrence to develop this two-year amendment was granted. It is understood that the Mission will not target micro-enterprises under this amendment, but efforts will be made to extend COSEP's membership to include smaller enterprises.

4). Legal and Regulatory Judicial Reform (0340): After completing the Judiciary System Assessment, the Mission will review the design and consider ways of supporting a transparent judicial process while clearly separating the judicial from the trade and investment agenda. Recognizing limitations on Mission staff, LAC/DI will assist Mission in project design. The Mission should consider drawing on expertise in the region wherever possible to work within a regional approach. When ready, the Mission will provide LAC with a reporting cable on its proposed design and request program concurrence from AID/W.

5). Strengthening Municipal Institutions (0341): Based on the scheduled Municipal Sector Assessment, the Mission will submit a revised NPD for AID/W review. It is understood that any Cordoba resources provided to municipalities in conjunction with this project will not be associated with A.I.D.'S ESF programs.

6). Natural Resources Non-Project Assistance (0336): Programmatic concurrence to develop this NPA activity was granted. However, due to the need to define performance conditionality more fully, and define uses of dollar and local currency resources and NPA mechanisms, a Concept Paper will be submitted for AID/W review.

7). P.L. 480 Title III Food for Development: The Mission should develop this program. The Mission was informed that local currency generated from this program may be used for budgetary support to the GON if Cordobas promote policy reforms related to food security, including nutritional issues, and agriculture sector privatization. The Mission was advised to emphasize GON/USAID efforts to design and implement a food security plan when it submits its Title III proposal to AID/W for review.

C. FY 1994 PROJECTS

1). Economic Recovery and Development II (0342): See comments under ERD I. The program will be included in the FY 1994 ABS.

2). Private Agricultural Services Amendment (0315): This amendment will be included in the FY 1994 ABS.

3). Health Care Financing NPA (0337): This NPA will be included in the FY 1994 ABS.

CLARIFICATIONS:

Clarification 1: Timing for submission of baseline data on performance indicators. The Mission will be expected to begin reporting on available baseline data and performance targets in the FY 94-95 Action Plan. At present data are still scarce in Nicaragua but the IFIs are expected to begin generating reports this year. The Mission was requested to work closely with the IFIs to avoid duplication of effort and to assess what assistance it can or should provide to the GON to aid in development of baseline data.

Clarification 2: Regional cooperation and support of regional and centrally funded projects to Mission objectives. Given the scarcity of ESF and DA and the probability that these levels will be decreasing throughout the Bureau, USAID/Nicaragua should continue to avail itself fully of any appropriate centrally funded, or regionally funded activities which support the strategic objectives of the program. Wherever possible the Mission should work to leverage other bilateral and multilateral funds as well.

Clarification 3: Reduced paperwork for project design and decentralization of authorization authority. The LAC Bureau anticipates that Handbooks 1-4 will be rewritten to reduce design paperwork. LAC will allow Missions to move directly from the NPD to the PP if the Mission Director determines that sufficient design and analytical work has been accomplished. Until DOA No.

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752 is rewritten, the authority to authorize new and amended projects that have LOP funding in excess of \$20 million and \$30 million respectively will continue to be delegated to Mission Directors on an ad hoc basis.

Clarification 4: Mission proposes to use \$2.5 million of local currency from its OE trust fund in FY 1992 to exercise a purchase option on the building it currently leases. The LAC Bureau supports this proposal. While we understand that FA/B also supports the substance of this proposal, it appears that the additional trust fund cap needed for this purpose during FY 92 will not be available. We suggest the Mission include a write-up on this in the FY 94 ABS, with emphasis on cost/benefit.

Clarification 5: USAID/Nicaragua's Internal Control Assessment noted several areas of management control vulnerability caused by lack of experience FSN staff. The Bureau encourages the Mission to continue seeking good local staff and to keep up its on-the-job and other training programs to improve their skills. Given the high priority of this program and the fact that the Mission is in a first phase of project development and implementation, the LAC Bureau has agreed to maintain USAID/Nicaragua FTES at their present level during FY 93, and will do its best to maintain that level in FY 94.

Clarification 6: USAID assistance to the Atlantic Coast region. While activities specifically targeted at the Atlantic Coast are scheduled to phase out in FY 94, USAID will continue to consider this region in all project design along with other areas of the country as appropriate.

OTHER ISSUES RAISED:

A. Democratic Initiatives: At present the Mission portfolio is aimed primarily at strengthening governance and municipal institutions. In the interests of keeping development of all institutions at an equal pace, the Mission should explore ways to deepen its democracy initiative through establishing an Administration of Justice program concurrently with these other activities. The Mission should look for ways to engage regional institutions, such as ILANUD, in this process.

Recommendation: That you approve the Nicaragua 1993-94 Action Plan review as described above.

Approved: _____

Disapproved: _____

Date: _____

5/29/92

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LAC/CEN:DS Ponasik:5/29/92:ACTPLN.MEM

Clearances:

LAC/CEN:TC-Wagner (draft)
LAC/DR/CEN:MSilverman (draft)
LAC/DR:PBloom (draft)
LAC/DPP:EZallman (draft)
LAC/GC:GWinter (draft)
OPS/PRC:LRogers (draft)
ARA/CEN:TSmith (draft)
DAA/LAC:ASWilliams (draft)
SA-AA/LAC:KHarbert (draft)

Annex I
Scopes of Work for Long-Term Technical
Advisors

Scopes of Work

NOTE: All positions are to be filled by individuals who speak and write Spanish fluently and have experience in Latin America.

1. Assistant Project Officer

Objective

The Assistant Project Officer, a Foreign Service National (FSN) Personal Services Contractor (PSC), will work in the Office of Finance (OFIN) and will report directly to the USDH Project Officer. This individual will assist the USDH Project Officer for the Financial Management Reform Project and will be responsible for coordinating, facilitating and monitoring implementation activities under the project.

Statement of Work

As Assistant Project Officer, this individual will be responsible for:

- o Maintaining personal liaison with the USAID/N Office of Finance, GON counterpart personnel (i.e. on the Technical Secretariat), other donors, and consultants responsible for implementing project activities.
- o Assisting the USDH Project Officer in reviewing bi-annual work plans and semi-annual reviews for the project. These will be prepared by both the institutional contractor and Project Technical Director and submitted to USAID/Nicaragua for approval.
- o Assisting the USDH Project Officer in identifying technical assistance to be procured using an institutional contractor or buy-ins to the LAC/RFMIP II or SDI Project; assisting the USDH Project Officer in preparing project implementation documentation such as Project Implementation Letters (PIL's), Project Implementation Orders (PIO's), etc.
- o Meeting periodically with the institutional contractor/consultants to review work progress and problems.
- o Analyzing technical, procurement, financial, shipping, and other reports and documents required by the institutional contractor/consultants, and maintaining a record of consultants progress in meeting the project's work plan.

- o Visiting the work sites periodically to observe on-going activities.
- o Assuring that required financing arrangements are made, analyzing disbursements against planned expenditures, and providing technical approval to contractor payment vouchers.
- o Reviewing periodic contract status reports to meet internal AID management or information needs.
- o Coordinating actions required of other officials (whether host country, AID, or consultants) and following up to assure that required actions are taken in a timely manner.
- o Assuring that required project evaluations are made, and that corrective actions are taken where necessary.
- o Assisting in the maintenance of a complete and current contract monitoring file, including all relevant documents and reports.
- o Assisting the USDH Project Officer to ensure the timeliness of GON budget and resource support to the project in general and to the Executive Commission and Technical Secretariat, in particular.
- o Assisting the USDH Project Officer to ensure the effective management and coordination of all project related implementation activities by the GON.

Relationships and Responsibilities

The Assistant Project Officer will report to a USDH Project Officer in the Office of Finance (OFIN) and will work closely with the Project Technical Director, the Executive Commission, the Technical Secretariat, the Ministry of Finance, the Office of the Comptroller General, other key ministries, other donors, the LAC Bureau, and the institutional contractor/consultants. If a qualified Nicaraguan is not identified, it may be necessary to hire a TCN or U.S. citizen.

Performance Period

The performance period is 36 months, subject to availability of funding and need.

2. Project Technical Director

Objective

The Project Technical Director will work in the Technical Secretariat and will provide TA in such areas as drafting legislation, audit and control, coordinate all activities of the Secretariat including those of the counterpart personnel and the institutional contractor/consultants. This individual will report to the Executive Commission and the USDH Project Officer in the Office of Finance (OFIN), but is basically viewed as an employee of the GON Technical Secretariat and will be responsible for coordinating, facilitating and monitoring the integrated financial management approach to the project.

As the Technical Director, working in the Technical Secretariat as the principal coordinator of IFMS activities for the GON, the individual will be required to:

- o Define the fundamental characteristics of an integrated government financial information system;
- o Systematize the principal information needs, points of entry and principal processes of the IFMS;
- o Coordinate activities of the Technical Secretariat including counterpart personnel, maintain personal liaison with USAID/Nicaragua, other donors and the institutional contractor/consultants responsible for implementing project activities. In coordinating activities of the Technical Secretariat, the Project Technical Director will be responsible for the following activities:
 - assisting in the preparation and or review of draft legislation, secondary norms, and administrative orders necessary to establish an Integrated Financial Management and Comprehensive Auditing System;
 - monitoring training and the process of qualifying the GON personnel required for the establishment of the integrated system;
 - providing advice and counsel to the institutional contractor/consultants, the Ministry of Finance and Comptroller General's Office and the USAID Project Officer to facilitate implementation and follow-up of the integrated system;
 - assisting the GON and USAID/N in coordinating other donor resources for the accomplishment of the IFMS and CAS;
 - assisting USAID/N in reviewing qualifications of proposed consultants to be provided by the institutional contractor and proposed consultants to be procured via buy-ins to LAC/RFMIP II or the SDI Project; and
 - assisting in the preparation of a human resource

training and professional development plan and coordinate the timely preparation of a master information system plan for government financial management.

- o Advise on the adequacy and timeliness of GON budget and resource support to the project in general and to the Executive Commission and Technical Secretariat, in particular; and
- o Provide all possible support to the integrated management system approach during the life of the project.

Relationships and Responsibilities

The Project Technical Director will be the overall coordinator for the FMRP. This individual will work under the direction of the Executive Commission (the Ministry of Finance, the Office of the Comptroller General) and will coordinate IFMS activities with other key ministries, other donors, and institutional contractors/consultants. The individual will also report to the Chief of Party and to the USAID/N Project Manager.

Performance Period

The performance period is 36 months, subject to availability of funding and need.

3. Accounting Specialist

Objective

This individual will, as appropriate, coordinate implementation activities with the USAID/N Controller, key GON officials on the Project Technical Secretariat, the Project Technical Director, key officials of the Office of Government Accounting and other officials in the Ministry of Finance. Tasks will include:

- o Assisting in the preparation of the legislation which establishes the Ministry of Finance as the central regulatory authority and the Office of Government Accounting as the governing body for accounting and financial information in the government. He will help:
- o Developing an integrated government accounting system for the central government in order to:
 - Prepare the regulations for the accounting system;
 - Design the chart of accounts and tie into budgetary and economic classifications;

- Identify the information that the accounting entry control centers maintain and integrate it into the data base
- Design the reports for the accounting system and design new formats for the capture and entry of information; and
- Review the implementation of standards and methodologies.

As Chief of Party under an institutional contract, this individual will be responsible for coordinating and facilitating all activities under the institutional contract, as well as directly administering assistance to design and implement the accounting subsystem.

Statement of Work

As the Chief of Party, the individual will be responsible for:

- o Identifying and recruiting consultants in coordination with the USDH Project Officer, USAID/N Controller, and Executive Commission to perform various implementation actions under the Project. All consultants hired under the institutional contract will be subject to the approval of USAID/N;
- o Consulting with the USAID/N Project Officer, the USAID/N Controller, and the Executive Commission preparing detailed scopes of work for consultants to be engaged under the institutional contract. All scopes of work will be subject to USAID/N approval;
- o Preparing bi-annual work plans and budgets for the project which will be subject to USAID/N approval; and
- o Preparing and submitting periodic contract status reports to USAID/N.
- o Conducting and overseeing all administrative and logistic requirements of the technical assistance team.

Relationships and Responsibilities

The Accounting Specialist will serve as head of the Accounting subsystem component under the institutional contract and will report to the USDH Project Manager and counterparts at MIFIN.

Performance Period

The performance period is 36 months, subject to availability of funding and need.

4. Auditing Specialist

Objective

The Auditing Specialist will work in the Technical Secretariat and the Office of the Comptroller General and will report to the Chief of Party under the Project's institutional contract. This individual will be responsible for coordinating and facilitating implementation activities in the auditing system under the project.

Statement of Work

As the Auditing Specialist, this individual will work with GON government officials to:

- o Assist in the preparation of the legislation which establishes the Office of the Comptroller General as the central regulatory authority by:
 - Organizing an inter-institutional working group to prepare a work plan for the design of the chapter on audit in the Code of Financial Management;
 - Carrying out the work plan;
 - Presenting the draft to the Executive Commission; and
 - Participating in its application.

- o Assist in reorganizing the Office of the Comptroller General by:
 - Helping the GON convert the OCG into the governing body of a system of control and audit and helping to ensure compliance with pertinent legal requirements;
 - Preparing public sector auditing standards;
 - Determining OCG training requirements; and
 - Evaluating external and internal auditing requirements.

- o Prepare policies, standards, processes and procedures for the issuance, implementation, follow-up and evaluation of control and audit in the GON.

Relationships and Responsibilities

The Auditing Specialist will work under the direction of the institutional contractor's Chief of Party and will work closely with the Project's Technical Director, GON officials on the Project's Technical Secretariat, and the Office of the Comptroller General.

Performance Period

The performance period is 36 months, subject to availability of funding and need.

5. Supervisory Training Specialist: Auditing

Objective

The Supervisory Training Specialist will work in the Office of the Comptroller General and will report directly to the institutional contractor's Chief of Party and will work closely with the Project's Technical Director. This individual will be responsible for coordinating and facilitating audit training activities under this project.

Scope of Work

This individual will be responsible for ensuring that the personnel of the Office of the Comptroller General, both professional and non-professional staff, are sufficiently trained to carry out their responsibilities.

This individual will assist in creating and organizing a training program for professional development in governmental control and audit. This individual will carry out an assessment of the training needs of personnel and with the results, develop the corresponding Training Plan. Such a plan will include agency internal audit personnel.

Relationships and Responsibilities

The Supervisory Training Specialist will work under the direction of the institutional contractor's Chief of Party and will work closely with the Project's Technical Director, the Comptroller General and the Financial-Administrative Division of the OCG.

Performance Period

The performance period is 10 months, subject to availability of funding and need.

6. Accounting Specialist: Consolidations

Objective

The Accounting Specialist will work under the direction of the institutional contractor's Chief of Party and will work closely with the Project's Technical Director, the Office of Government Accounting, the other accounting specialists and information specialists and the Office of the Budget.

Scope of Work

This individual will be responsible for:

- o Designing the financial reporting methodology for GON agencies into a uniform presentation
- o Designing the methodology for the development of the Consolidated Financial Statement of the Government
- o Work with the information systems specialist in preparing a computer needs assessment for government entities.

Relationships and Responsibilities

The Accounting Specialist in consolidations will work under the direction of the institutional contractor's Chief of Party and will work closely with the Project's Technical Director, the Office of Government Accounts and Office of Information.

Performance Period

The performance period is 12 months, subject to availability of funding and need.

7. Information Systems Specialist(s)

Objective

The Information Specialist will work in the Ministry of Finance and the Office of the Comptroller General. This individual will be responsible for coordinating, facilitating and monitoring information system activities under this project.

Scope of Work

This individual will be required to:

- o Conduct a computer needs assessment (hardware and

software) in the Ministry of Finance, and in the different GON agencies;

- o Develop and implement a Master Plan for Information Systems in the Office of the Comptroller General; and
- o Develop and implement any other information systems which are needed to implement the integrated accounting system and the comprehensive audit system.

Relationships and Responsibilities

The Information Systems Specialist will work under the direction of the institutional contractor's Chief of Party and will work closely with the Project's Technical Director and GON counterpart personnel involved in implementing the project. This individual will also work closely with the accounting and auditing specialists.

Performance Period

The performance period is 6 person months for accounting activities and 6 person months for auditing activities.

8. Accounting Instructor

Objective

The objective of the Accounting Instructor is to train personnel of the Ministry of Finance and other government entities in the application of the appropriate standards and methodologies as developed through the Project.

Scope of Work

- o Train students and instructors in the Ministry of Finance and the central government agencies
- o Train students and instructors in the autonomous entities and state enterprises.

Relationships and Responsibilities

The Accounting Instructor will work under the direction of the institutional contractor's COP and will work closely with the Project's Technical Director, accounting specialists, the Office of Government Accounting and the Office of Personnel Management.

Performance Period

The performance period is 10 months, subject to availability of funding and need.

Annex J
Waiver of Host Country Contribution

**Action Memorandum for the Director**

April 29, 1994

FROM : Timm Harris, PDIS *Timm Harris*

THROUGH : Lawrance Odle, PDIS *Odle*

SUBJECT : Waiver of Host Country Contribution, Financial Management Reform Project (524-0330)

Problem: Your approval is needed to waive the requirement that the Government of Nicaragua (GON) contribute at least 25 percent of the costs of the Financial Management Reform Project (FMRP), funded from the Development Assistance account.

Background: Section 110 (a) of the FAA requires that the host country contributes at least 25 percent of project costs. Section 124 allows for waiver of this requirement and 91 State 412672 approved relatively least developed countries (RLDC) status to Nicaragua and gave the Mission the flexibility to consider exemption from the host country contribution to DA-funded projects on a case-by-case basis.

Discussion: A grant agreement will be signed shortly with the GON. Activities under the FMRP require full participation of the Ministry of Finance and the Office of the Comptroller General, as well as substantial participation by many other government entities. Major project components are; (1) Adoption of the Integrated Financial Management System, (2) Implementation of an Integrate Accounting System, (3) Comprehensive Auditing System, and (4) Training and Public Awareness. AID resources budgeted for this effort total \$4.4 million.

The GON will provide counterpart personnel, office space, equipment, and office operational support for the Project. However, all these activities and support represent revision of on-going activities with associated costs already part of the governments's budget and operations. New and additional costs will be minimal as GON personnel and facilities are already in place and operating. Follow-on costs that will be an expansion of current requirements are basically limited to training activities and public awareness efforts. Once reforms of current financial management procedures are installed and implemented, sustained accomplishment of project outputs will be part and parcel of routine operations of the GON already funded.

As there are few new or additional costs to the GON for FMRP implementation, and as Nicaragua is a relatively less developed country, a waiver of the host country requirement of 25 percent is considered appropriate.

Recommendation: That you hereby approve this waiver of the Government of Nicaragua contribution for the Financial Management Reform Project.

Approved: Janet C. Ballantyne
Director, USAID/Nicaragua
Date: 5/27/94

T.H.
Drafted: T.Harris, PDIS, 3/22/94
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Clearances
PEPS:Tamani
CO:Mkenyon
RLA:Mvelazquez
OFIN:Rlayton
DD:Msilverman

MS
5.3.94

<u>JVA</u>	Date	<u>5/3/94</u>
<u>MK</u>	Date	<u>2/5/94</u>
<u>[Signature]</u>	Date	<u>5/27/94</u>
<u>[Signature]</u>	Date	<u>05/24/94</u>
<u>MS</u>	Date	<u>5/28</u>