

**IMPLEMENTATION OF A QUALITY ASSURANCE SYSTEM FOR THE
NATIONAL CUSTOMS ADMINISTRATION**

(PE-0171)

EXECUTIVE SUMMARY

BORROWER AND: Government of the Republic of Peru
GUARANTOR:

EXECUTING AGENCY: Ministry of Economy and Finance (MEF), via the
Superintendencia Nacional de Aduanas - ADUANAS
[National Customs Administration - Customs]

AMOUNT AND SOURCE: IDB: (OC) US\$ 750,000
Local counterpart funding: US\$ 650,000
Total: US\$1,400,000

**FINANCIAL
TERMS AND
CONDITIONS:** Amortization period: 20 years
Disbursement period: 24 years
Currency use: Single Currency Facility
Interest rate: variable
Inspection and supervision: 1%
Credit fee: 75%

OBJECTIVES: The general objective of the program is to help the
National Customs Administration strengthen and assure
current levels of quality in the operation of customs
services.

DESCRIPTION: The National Customs Administration is a
decentralized government agency vested with legal
capacity, with independent administrative, economic,
budgetary, financial and technical resources for the
fulfillment of its functions. The success of
modernization efforts mounted by Customs has prompted
officials to advocate the institution of new concepts
of service quality and the establishment of
mechanisms designed to continue to assure the quality
of Customs services regardless of future changes in
its management.

The program will be conducted in different phases
consisting of the following major components:
(i) designation of areas and procedures to be
included in the quality assurance plan;
(ii) assessment of current standards of quality in
targeted areas and procedures; (iii) development of
courses designed to strengthen the quality of customs
services, training the decision makers who will be
implementing quality improvement activities and

auditors responsible for monitoring the quality plan; (iv) formulation and approval of the quality assurance system implementation plan; (v) implementation of the quality plan (revision and documentation of customs procedures and systems in line with ISO technical standard 9000); (vi) conduct of pre-audits for certification purposes and granting of quality certification in accordance with ISO technical standard 9000.

**ENVIRONMENTAL
CLASSIFICATION:**

The Committee on Environmental and Social Impact, at its meeting of July 7, 1997, approved this operation without recommendations.

BENEFITS:

The program is expected to produce the following benefits: (i) strengthen the quality of services furnished by the Customs Administration and assure that the quality of customs services is maintained regardless of future changes in its management; (ii) inspire excellence and promote cooperation between managers and employees at all levels of the Customs Administration; (iii) improve the efficiency of operating procedures for the delivery of quality services; (iv) set an example for other government agencies and earn recognition from the business community and the general public.

RISKS:

The operation presents no perceivable risks in view of the government's backing of this program and of the excellent results achieved from previous technical cooperation programs.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Bank strategy in Peru for 1997 and 1998 has three objectives: (i) to help the country modernize its economy by supporting structural reform programs and bolstering the financing of private investment in general and, more specifically, investments in the rehabilitation and expansion of productive capacity; (ii) to continue to support programs designed to alleviate poverty and improve the coverage and efficiency of social services; and (iii) to bolster modernization efforts mounted by the Peruvian government, including efforts to improve efficiency and transparency in the collection and administration of government revenues.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Prior to the first disbursement, the executing agency will be required to present the Bank with: (i) the proposed contract for the national program coordinator; (ii) evidence that a counterpart technical team is in place; and (iii) evidence that a bank account to hold loan proceeds has been opened (3.20).

OTHER CONTRACTUAL CONDITIONS:	Other contractual conditions include: (i) the assignment of technical personnel to the technical committees (3.8); and (ii) the presentation of semiannual reports and a final report (3.15) to the steering committee and the Bank for review purposes.
PROCUREMENT OF GOODS AND SERVICES:	Procurements of equipment valued at over US\$250,000 are subject to international competitive bidding. Smaller-value procurements will be made in accordance with local regulations.
STANDARD PROCEDURE:	This operation is subject to review by the Committee of the Whole since it is not included in the country programming paper approved by the Board of Executive Directors.

I. BACKGROUND

A. Macroeconomic context

- 1.1 The Peruvian economy grew at an average annual rate of 8.5% over the period from 1993 to 1995, making it the fastest-growing economy in Latin America. This rapid growth in macroeconomic spending produced an untenable current account deficit in the country's international balance of payments. In an effort to reduce this deficit, the government implemented an adjustment policy in 1996 grounded in fiscal restraint, whose success was the major contributing factor in bringing the current account deficit down from 7.3% to 5.8% of GDP between 1995 and 1996.
- 1.2 This fiscal adjustment produced a downturn in economic activity, in which the annual growth rate for GDP plummeted from 7.1% in December of 1995 down to 1.5% by October of 1996. However, the economy has been expanding since November of 1996 and, by April of 1997, was growing at an annual rate of 4.9%. Inflation, which has been held in check over the past few years, fell to its lowest level in more than two decades (8.8%) in May of 1997.
- 1.3 One of the main challenges of macroeconomic policy in Peru is to boost current government revenues to a level comparable with the Latin American average (namely 19% of GDP). These revenues currently account for a 14.2% share of GDP. Such a boost in revenues is especially important to Peru for the following reasons: (i) Its external debt service payments are currently 4% of GDP and are expected to increase by 2002; (ii) The ability to step up social spending to reduce poverty levels (which are the highest of any middle income Latin American country) and still meet external commitments hinges on the success of efforts to boost current revenues.
- 1.4 Proceeds from customs duties and other levies on imports account for 43% of central government tax revenues. The remainder of these revenues are raised by the Superintendencia Nacional de Administración Tributaria [National Tax Administration Agency]. From a macroeconomic standpoint, the share of revenues contributed by the National Customs Administration justifies the bolstering of efforts to strengthen and solidify the efficiency of customs services.

B. The Superintendencia Nacional de Aduanas - ADUANAS [National Customs Administration - Customs]

- 1.5 The National Customs Administration, also known simply as Customs, is a decentralized government agency attached to the "Economy and Finance" sector. It is a public entity established under the provisions of Law 24829, vested with legal capacity, with independent administrative, economic, budgetary, financial and

technical resources for the fulfillment of its functions under the provisions of its organic act and bylaws. 1/

- 1.6 The National Customs Administration embarked on a reform and modernization program back in 1991 in an effort to develop into an effective foreign trade facilitator and efficient collector of corresponding duties. The quality and success of the reform and modernization program mounted by the Peruvian Customs Administration has already earned it international recognition. The World Customs Organization (WCO), an international agency with 142 member countries, recognized as the leading authority on all customs-related matters, has expressly acknowledged its achievements and looks upon the Peruvian Customs Administration as an example and model for modernization processes. Other Latin American countries have also acknowledged the high quality of these achievements, and many have solicited technical assistance from the Peruvian Customs Administration. 2/
- 1.7 As far as its efficiency in collecting customs duties is concerned, it is true that modernization programs are dependent on certain exogenous factors and, accordingly, do not always result in sizeable revenue increases, but in the specific case of Peru, the growth in customs revenues has systematically outstripped rises in the value of imports, as illustrated by the revenue data presented in the following table (1990-1996, in millions of U.S. dollars).

YEAR	IMPORTS CIF value	GROWTH RATE	REVENUES	GROWTH RATE
1990	2,725.81		625.96	
1991	3,475.73	27.5	1,001.96	60.0
1992	3,790.37	9.1	1,282.94	28.1
1993	4,024.87	6.2	1,504.97	17.3
1994	5,436.82	35.1	2,032.30	35.0
1995	7,584.10	39.5	2,675.45	31.6
1996	7,715.86	1.7	2,723.70	1.8

1/ Article 1 of the Organic Act Creating the Superintendencia Nacional de Aduanas [National Customs Administration] approved by Decree-Law 26020.

2/ The Peruvian government has entered into customs cooperation agreements with the governments of Venezuela, El Salvador and Panama, and has collaborated on intraregional technical cooperation programs with Honduras and Costa Rica.

- 1.8 As part of its trade facilitation efforts, it has streamlined and automated all customs operating and administrative procedures and established an on-line integrated customs management system at all custom-houses throughout the country, which have helped speed up customs formalities and ensure the fair treatment of service users.

C. Technical assistance furnished by the Bank

- 1.9 The Bank has been backing reform and modernization efforts of the Peruvian Customs Administration under two technical cooperation loans: loan 665/OC-PE, approved in 1991, providing for various technical cooperation projects, including US\$2,350,000 in funding for the Customs Administration; and loan 820/OC-PE, approved in 1994, for US\$1,5 million equivalent in funding earmarked, in full, for the Customs Administration. The first operation sought to resolve the main problems associated with the customs system, focusing specifically on those problems which were slowing down customs operations. In addition to the shaping and approval of simplified operating procedures, it was also necessary to overhaul and strengthen the organizational structure of the Customs Administration, and streamline its operating regulations. Development and installation of an automated system to process foreign trade transactions and produce accurate information for use in decision-making was also needed. The objectives of the second program were to standardize and streamline regulations and procedures; strengthen collection, inspection, and valuation activities; set up a computer system in all Customs Administration departments; and bolster enforcement activities against customs fraud and contraband.
- 1.10 Both projects were successfully concluded. The technical documentation includes an evaluation of technical cooperation program 820/OC-PE recapping its objectives, main activities, outputs, and indicators of achievement. The main outputs produced by this program include the production of timely, reliable statistical data, "high-performance" post-clearance control procedures, and a new image for the National Customs Administration, making it a model for other government agencies. Customs revenues grew by 335% over the period between 1990 and 1996, compared with a 183% rise in the value of imports over the same period.
- 1.11 The success of Customs' modernization efforts has prompted officials to explore the possibility of instituting new concepts of service quality and establishing mechanisms designed to continue to assure the quality of customs services regardless of future changes in management. This commitment and obligation is embodied in the provisions of the General Customs Act of 1996, Article 3, which calls for customs services meeting the levels of quality established by international standards for quality assurance systems. The regulations issued under this act specify that the

quality system is to be restructured in line with ISO technical standard 9000 by the end of the year 1999.

D. ISO 9000 series technical standards

- 1.12 The 9000 series technical standards approved by the ISO 3/ in 1987 establish a strict set of standards for firms supplying products or services which must be met in their business operations to ensure customers internationally accepted levels of quality. ISO 9000 standards guarantee that a firm's production processes meet specific requirements ensuring a consistent, acceptable level of product quality. These processes range from product design to production, sales, and after-sales service. By setting requirements for production processes, ISO 9000 also facilitate the conduct of audits to verify a firm's compliance with the standards throughout its production cycle.
- 1.13 These technical standards were originally shaped and approved in response to demands presented by large businesses, whose contracts included an obligation on the part of their suppliers to set and meet certain standards to guarantee the quality of their products and avoid the costs and delays involved in checking product quality on a case-by-case basis. The studies resulting in the approval of the ISO 9000 standards, which have already been adopted by over 90 countries, including Peru, were conducted by ISO Technical Committee 176, and sought to reconcile and systematize the differing demands presented by purchasing firms. The ISO 9000 series standards include technical standards 9001, 9002, and 9003, which establish quality requirements for use as mandatory contract clauses in sales contracts. ISO standard 9004 establishes a series of steps and guidelines for the implementation and administration of a quality system, and served as a basis for this operation.
- 1.14 Although ISO 9000 standards initially applied only to manufacturing firms, their coverage was promptly extended to the service industry as well (particularly to banking establishments and insurance companies). Recent reforms in public sector management have prompted government agencies to begin instituting systems designed to guarantee their users or customers a consistent standard of service quality. The Peruvian Customs Administration will be the first government agency to endeavor to establish a quality assurance system for its services in line with ISO 9000 series technical standards (specifically ISO standard 9004). It will also be the country's first government agency to strive to maintain a consistently high standard of quality.
- 1.15 The envisioned quality system would: (i) guarantee that each and every operating procedure within the Customs Administration is clearly defined, specifying associated responsibilities, controls

3/ International Organization for Standardization

and targeted outputs; (ii) establish mechanisms enabling Customs to assess the needs of its internal (officials, departments) and outside customers (individuals, businesses); (iii) establish warnings or indicators to detect deviations from established procedures and appropriate corrective measures.

- 1.16 The quality assurance system will be phased in as described beginning in paragraph 3.1 below. The final step in the process is an evaluation to be conducted by an ISO-accredited firm which, assuming its findings are satisfactory, will issue a certificate attesting to the capability of the Customs Administration to provide customs services with consistent, acceptable levels of quality. In the specific case of Peru, this certificate is to be registered with the Instituto de Defensa de la Competencia y de la Propiedad Intelectual (INDECOPI) [Agency for the Protection of Competition and Copyrights], which is the agency in charge of accepting international standards of quality and certifications of quality issued by accredited firms.

E. Government loan request

- 1.17 The National Customs Administration has requested a new technical cooperation loan from the Bank via the Ministry of Economy and Finance. The new operation will endeavor to: (i) solidify achievements by previous programs and standardize operating procedures; and (ii) set up a quality assurance system at the National Customs Administration. The purpose of the project is to revamp, fine-tune, and strengthen customs management procedures to offer high standards of quality and efficiency to service users and transactors engaged in foreign trade.

F. The Bank strategy

- 1.18 The Bank strategy for Peru, as outlined in the Country Paper recently submitted to the Programming Committee, has the following basic objectives: (i) to help the country step up efforts to modernize its economy focusing specifically on bolstering the second phase of the structural reform process, establishing an institutional and policy framework for the rational management of natural resources, and financing private investment particularly in the rehabilitation and expansion of production infrastructure; (ii) to continue to support efforts designed to alleviate poverty and improve the coverage and efficiency of social service delivery systems; and (iii) to bolster the modernization efforts of the Peruvian government to improve the efficiency and transparency in revenue collection and administration.

- 1.19 The Bank is backing programs designed to strengthen customs systems in thirteen countries throughout the region. The strategy in all these countries is to simplify and harmonize customs regulations and procedures, using the preparatory work for the Americas Free Trade Area (AFTA), and the Kyoto Convention, which has the same goals at the world level.

II. OBJECTIVES

A. General objective

- 2.1 The general objective of the technical cooperation program is to help the National Customs Administration strengthen current levels of quality in the operation of customs services.

B. Specific objectives

- 2.2 The specific objectives sought by the technical cooperation program are as follows:
- a. to frame and implement a quality plan geared to the ongoing improvement of customs procedures;
 - b. to establish a quality assurance system at the National Customs Administration in line with ISO technical standard 9000 and obtain certification.

C. Outputs

- 2.3 The technical cooperation program would generate the following main outputs: (i) satisfaction of customer/user demands by establishing mechanisms for assessing needs and measuring customer satisfaction; (ii) more streamlined operations and modernized procedures; (iii) solidification of the new culture within the Customs Administration grounded in a concern for quality and geared to the promotion of efficiency; (iv) prevention of deviations from or breaches of existing or new procedures established in the course of program implementation to assure high quality services; and (v) establishment of procedures for measuring the social damage caused by inadequate provisions and the efficiency of customs procedures in terms of human and physical resource inputs.

III. PROGRAM DESCRIPTION

A. Activities

- 3.1 The establishment of a quality system for the National Customs Administration requires the implementation of a complex sequence of activities, divided in separate phases, whose components are discussed in greater detail in Annex II.
- 3.2 **Phase one** will be devoted to establishment of the steering committee, the appointment of technical committee members, the selection of Customs areas in which the quality system is to be set up and the identification of operating procedures to be addressed by the system. These areas will include, without being limited to, imports and exports for final consumption, temporary imports, drawbacks and applications for refunds of overpayments of customs duties. Other activities will include the formation of evaluation teams to assess the current status of quality-related functions, pinpointing any and all inadequacies or deviations from technical standard 9000.
- 3.3 **Phase two** will be devoted to the training of top management, facilitators, and other employees in targeted areas to familiarize them with the particulars of standard 9000 and with its implications for their work.
- 3.4 **Phase three** will be devoted to the formulation of a specific plan for implementing the quality system, the revision of current procedural manuals, the documentation of new and any previously undocumented procedures, and the establishment of indicators for measuring progress towards proposed quality goals.
- 3.5 **Phase four** activities include approval of the implementation plan for the quality system and of operating procedure and computer system manuals, implementation of precautionary measures to prevent deviations from the implementation plan; and the design of mechanisms to realign procedures deviating from established standards of quality.
- 3.6 **Phase five** will be devoted to the performance of external audits to verify compliance with established procedures and their adherence to technical standard 9000. The National Customs Administration Steering Committee will select a qualified firm to conduct the evaluation and grant the corresponding certification.
- 3.7 **Phase six** activities include the evaluation of the quality system by the certifying firm and the issuance of a corresponding certificate of quality, as well as ongoing audits conducted by a group of auditors to monitor compliance with established procedures and maintain established levels of quality.

B. Framework for program implementation

- 3.8 The Ministry of Economy and Finance (MEF) will serve as the program's executing agency. The National Customs Administration will be in charge of program monitoring and supervision, to which end it will be vested with a steering committee and a series of technical committees as described in detail in Annex II.
- 3.9 The Proyecto Especial de Coordinación del Programa de Ajuste del Sector Comercio (COPRASEC) [Special project for the coordination of the adjustment program for the trade sector] attached to the Ministry of Economy and Finance will be in charge of managing the program and hiring individual consultants subject to Bank approval, in accordance with the procedures appended to the technical cooperation agreement.
- 3.10 The national coordinator will be in charge of preparing the reports, identifying contracts and documents for goods procurement, ensuring that the work load is properly distributed among the technical committees, and overseeing the performance of work.

C. Consulting services and logistical assistance

- 3.11 The following consulting services are deemed necessary for the implementation of scheduled activities: (i) one **international** consultant specializing in quality assurance systems for a total of five (5) months; (ii) **local** consultants: one national coordinator for 18 months, one expert in customs legislation for 18 months, three experts in organization and methods for a total of 36 months, five computer experts for a total of 42 months, one auditor for 18 months, and two administrative assistants for a total of 36 months. The program's technical documentation includes terms of reference for consultants.
- 3.12 The National Customs Administration will assign the following technical and support staff to work full-time on project activities: one expert in customs legislation, two experts in customs methods and procedures, three computer experts, two training experts, and two experts attached to operational customs units. It will also furnish all necessary general supporting services for the technical cooperation project, as well as office space and facilities for systems analysis and development work, office supplies, local transportation, per diems, communications, and publications.

D. Procurement of goods and services

- 3.13 The National Customs Administration will draw on program funds to purchase the equipment indicated in the itemized budget presented in Annex II and in the operation's technical documentation. No procurements of goods or services valued at over US\$250,000 are

envisioned. Accordingly, scheduled procurements below this threshold amount will follow the local procedure outlined in Annex B of the loan contract.

E. Environmental impact

- 3.14 The Committee on Environmental and Social Impact (CEIS) approved the technical cooperation profile at its July 7, 1997, meeting with no recommendations.

F. Reporting and monitoring

- 3.15 The General Customs Act requires the National Customs Administration to present the Ministry of Economy and Finance with semiannual progress reports on the implementation of the quality plan in line with ISO standard 9000. These reports will be reviewed and approved by the Programming and Evaluation Committee in advance and submitted to the Bank for information and comment. The final report will be based on the audit report drawn up by the firm in charge of quality certification.
- 3.16 The executing agency will be required to present the Bank with annual financial reports on the use of technical cooperation funding within 120 days from the close of each year in which corresponding costs are incurred, followed by a final report due within three months from the date of the last disbursement. These reports will be audited by an independent firm selected and approved by the Bank.
- 3.17 The Bank will periodically monitor the project based on the aforesaid reports to keep abreast of progress, outputs, impact, and effects, and where necessary, to provide general and technical guidance.

G. Cost and financing

- 3.18 The entire cost of the program is estimated at US\$1.4 million. The Bank contribution to the project would be US\$750,000, to be drawn on its ordinary capital via the Single Currency Facility. The National Customs Administration would furnish US\$650,000 in funding. The cost categories listed in the budget summary presented below are itemized in Annex II.

BUDGET SUMMARY

BUDGET ITEMS	BANK CONTRIBUTION	LOCAL COUNTERPART FUNDING	TOTAL
Consulting services	513,400	40,000	553,400
Training	80,000	50,000	130,000
Finance charges	7,500	5,500	15,000
General support		25,000	25,000
Equipment	100,000	450,000	550,000
Publications		30,000	30,000
Contingencies	49,100	49,500	98,600
Total	750,000	650,000	1,400,000

- 3.19 Consulting fees and equipment procurement costs exclude any and all corresponding taxes, which may not be financed with program funding under any circumstances.

H. Disbursements

- 3.20 The conditions precedent to disbursement are as follows: (i) submission to the Bank of the proposed contract for the national coordinator; (ii) formation of a counterpart technical team; and (iii) opening of a bank account for the loan proceeds.
- 3.21 A US\$75,000 revolving fund may be set up at the request of the Ministry of Economy and Finance, to be periodically replenished based on duly established and documented requests for disbursement presented by the borrower. The establishment of this fund is subject to compliance with the conditions precedent to disbursement outlined in the previous paragraph by the Ministry of Economy and Finance.
- 3.22 In order to ensure the continuity and timeliness of the activities, expenditures anticipated by the National Customs Administration will be recognized. Expenses incurred from the date of loan approval may be reimbursed from the proceeds of the loan, while those incurred as from September 1, 1997, may be reimbursed from the local contribution, provided the Bank's procedures have been followed.
- 3.23 The deadline for submission of the last request for disbursement is 21 months, with the final disbursement to be made within a period of 24 months counted, in both cases, from the effective date of the loan contract.

IV. BENEFITS AND RISKS

A. Benefits

- 4.1 The new operation is expected to produce the following major benefits:
- a. Strengthen the quality of services furnished by the Customs Administration and assure that the quality of customs services is maintained, regardless of future changes in its management;
 - b. Inspire excellence and promote cooperation between managers and employees at all levels of the Customs Administration;
 - c. Set an example for other government agencies and earn recognition from the business community and the general public.

B. Risks

- 4.2 The operation presents no perceivable risks in view of the government's backing of this program and of previous technical cooperation programs and the excellent results achieved by these previous programs.

V. EVALUATION

- 5.1 The Bank will conduct an interim evaluation based on the indicators established in the logical framework and the quality plan to measure the progress of program implementation and pinpoint any complications or problems confronted by what is definitely a pioneering endeavor for a customs administration. A final evaluation will be conducted following the completion of the program in conjunction with the firm hired to grant the certification of quality.
- 5.2 The final evaluation will be carried out based on procedures developed as part of the program for measuring social losses produced by unsound or inadequate provisions and for measuring efficiency against corresponding inputs of human and financial resources. The evaluation will also assess social gains in terms of lower operating costs for the Customs Administration per se, as well as for service users and transactors engaged in foreign trade. The evaluation report will embody the knowledge and experience gleaned from the implementation of this technical cooperation program.

**QUALITY STRENGTHENING AND ASSURANCE PROGRAM FOR THE NATIONAL CUSTOMS ADMINISTRATION
LOGICAL FRAMEWORK (PE-0171)**

PRIMARY OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Service users the delivery of services at current or higher levels of	A comparable or higher level of customer satisfaction one year after the program completion date.	Interviews and survey of transactors (chambers of commerce, industry, ship operators and warehouse operators) and public opinion polls.	Future economic trends have no effect on current customs and trade policy.
Implement a quality plan; Implement a quality assurance system in ISO 9000 series technical	An on-line public information system (Internet or another system), consistently enforced procedures, regular publication of foreign trade statistics.	Statistical data consistently available on the same day of the month following the closing date. Time studies and studies of responsiveness in ten (10) different cases for each quarter of the year with respect to imports, the temporary import system, resources and applications for refunds of overpayments.	Management maintains its commitment to the program throughout the implementation period.
Establish quality and quality targets; Allocate human and physical resources; Identify firm.	Approval of the quality plan; assignment of counterpart technical personnel; inclusion of program funding in the 1997 budget; certification of quality.	A National Customs Administration decision. A National Customs Administration budget proposal. A certification of quality.	Management maintains its commitment to the program throughout the implementation period.
Members of the steering committee and sub-committees, designation of Customs Administration areas for implementation of the quality system, work plans and allocation of responsibilities. Assessment of the quality of computer and procedures, drafting and/or the quality assurance manual and procedural manuals. Support of top management, facilitators and employees in the particulars of standards and their implications for work.	<u>Estimated cost of program activities</u> (U.S. dollars) 2. 270,000 3. 130,000 4. 550,000 5. 75,000 6. 35,000 7. 40,000 8. 190,000 Finance charges 12,000 Contingencies <u>98,000</u> TOTAL 1,400,000	Accounting records maintained by COPRASEC and the national coordinator.	The Ministry of Economy and Finance and the Bank process procurements of services financed with Bank loan payments in a timely fashion.

PRIMARY OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ent and installation of computer t, training, revision of system of measures designed to prevent from ISO standards and to ny such deviations, nent of procedures for g the cost of errors. of the quality system tation process. an accredited firm to grant the n of quality. ion of program implementation			

PROCUREMENT PLAN (PE-0171)

PROGRAM PROCUREMENTS	PERCENTAGE ELIGIBLE FOR FINANCING		METHOD <u>1</u> /	PREQUALIFICATION <u>2</u> /	APPROX PUBLICATION
	IDB	LOCAL			SEMESTER
Services:					
Term local consulting assignments for a total value of US\$387,000, valued at under US\$100,000 each (paragraph 3.12).	100%			DC	2/97
National consulting assignment for a period of five months (US\$60,000).	100%			DC	2/97
IT training equipment:					
Equipment:					
Network servers (US\$22,500): 180,000		100%	DC		2/97
Printers (200) 8-10 ppm laser printers					
Computers (US\$2,000): 240,000		100%	LCB		1997/98
Computers (US\$2,000): 100,000	100%		DC		2/97 and 1/98
Training equipment: 30,000		100%	DC		1/98

Procurement procedures for the government enterprise sector, which includes the National Customs Administration among other government agencies, will be followed in this case (direct contracting subject to the presentation of three different offers) and LCB (local competitive bidding).

The procurement methods to be used in this case rule out any need for prequalification.

**GUIDELINES AND COST OF SETTING UP A QUALITY
ASSURANCE SYSTEM AT THE NATIONAL CUSTOMS ADMINISTRATION**

I. PROCEDURE

- 1.1 In general, the procedure for setting up a quality system based on ISO 9000 series standards depends on a number of different factors, such as the size and features of the firm or agency in which the system is to be set up, the surrounding environment and the current status of quality control procedures. Having considered these factors, the procedure envisioned for purposes of this technical cooperation program would consist of the phases and components described in the following paragraphs.
- 1.2 **Quality assessment.** The assessment would highlight problem areas or elements of Customs operations as far as quality is concerned and in terms of compliance with the requirements set by ISO standard 9000, concentrating on:
 - a. the complexity and level of sophistication of procedures and corresponding documentation;
 - b. pinpointing the weak points and best controls offered by existing procedures and strengths and weaknesses in the use of resources by the Customs Administration;
 - c. customs systems and procedures which need to be brought in line with ISO standard 9000;
 - d. the timetable for implementation of the quality plan and the establishment of quality assurance systems.
- 1.3 **Training.** Training, which can take different forms, is a pivotal part of this process, not only to furnish information on the import and implications of the implementation of quality assurance procedures, but also to foster and promote a spirit of cooperation in the performance of work and a sense of shared responsibility in the pursuit of quality. The program provides for the following types of training:
 - A. General courses
- 1.4 Courses conducted as part of quality strengthening efforts within the Customs Administration will accent its functions, its values and its policy with respect to the pursuit of quality, fostering and promoting active worker participation within the frame of reference established by the quality system per se and endeavoring

to familiarize participants with ISO 9000 series standards and to tailor these standards to National Customs Administration services and procedures.

B. Training of facilitators and quality auditors

- 1.5 Certain technical staff members of the National Customs Administration will be designated as facilitators to head up this performance optimization process to ensure the attainment of new quality improving goals and objectives, beginning with approximately 50 facilitators at Customs Administration headquarters and in operational customs facilities.
- 1.6 Other staff members will be trained as auditors (specializing in quality systems) and entrusted with the task of conducting regular audits to verify compliance with standardized quality procedures and monitor the effectiveness of these procedures in assuring quality. The training administered to these auditors will be based on ISO technical standard 10011. These auditors will be required to assist with two internal audits during the course of program implementation.

C. Internships

- 1.7 Envisioned internship programs will provide practical training for anywhere from five to ten professional staff members in auditing and certification procedures at firms or agencies possessing certificates of quality granted in accordance with ISO 9000 series technical standards.
- 1.8 **Quality plan and program.** This phase involves pinpointing strategic processes within the range of services furnished by the Customs Administration and identifying the internal customers (officials, departments) and outside service users associated with these targeted services. It will also be necessary to establish internal and outside customer preferences through: (i) public opinion polls and interviews with department heads; (ii) reviews of claims or complaints filed with the Customs Administration; (iii) the use of ongoing evaluation techniques and the establishment of quality indicators. This information will be used as the basis for determining the specific activities to be implemented and establishing a work schedule, allocating responsibilities among its various units and staff members and setting applicable deadlines.
- 1.9 **Quality system documentation.** All inputs, requirements and provisions for the operation of customs services included in the quality system will be specified and incorporated in the following documents:

- a. Quality assurance manual: This manual will provide a clear description of the National Customs Administration quality system, including quality assurance policy, quality objectives, commitment to the system, organizational structure and allocation of responsibilities, the system architecture, general quality procedures and processes, system resources and the timing of approved activities.
 - b. Procedural manual or quality standards, containing all procedures designed to meet its quality targets and the requirements of ISO standard 9000.
 - c. Quality instructions, containing specific work instructions.
- 1.10 **Implementation of the quality assurance system.** As part of the process of implementing the quality plan, the customs management model will be expanded to include all the required features of quality systems to ensure that procedures are performed correctly the first time. This, in turn, necessitates: (i) a commitment from top management to champion the quality system; (ii) the setting of general as well as department-specific quality targets.
- 1.11 **Pre-audits.** A general audit of the entire National Customs Administration quality system, similar to that to be conducted by the international certifying firm, will be performed once the system is up and running, after at least two internal audits have been conducted.
- 1.12 **International certification.** The last phase of the project involves applying for certification by an accredited international organization or firm. Certification is subject to an in-depth evaluation by the certifying organization, which will most likely issue comments requesting adjustments to or clarifications on the procedures and management of the Customs Administration. The project will assist with efforts to make any necessary corrections or clarifications.

II. ORGANIZATION

- 2.1 The Ministry of Economy and Finance will serve as the executing agency for this operation via the National Customs Administration. The program will be managed by COPRASEC [the Office for coordination of the trade sector adjustment program]. This office is part of the Sector Loan Coordination Unit established under Decree-Law 25535 and serves as a liaison office for multilateral organizations and government agencies involved in the implementation of trade sector adjustment programs and technical assistance operations for such programs.

- 2.2 The National Customs Administration, which will serve as the program's co-executing agency together with the Ministry of Economy and Finance, will be vested with the following structures:

1. Steering committee

- 2.3 The steering committee will consist of the National Commissioner of Customs, the four national department heads, the heads of the Callao and airport custom-houses and the national technical cooperation program coordinator. Its duties will be to:

- a. Set Customs Administration quality assurance policy;
- b. Take charge of the planning and general management of the ISO 9000 project;
- c. Allocate resources to the project;
- d. Coordinate work in different areas impacting on the quality of basic customs services;
- e. Conduct regular audits to monitor the compliance of established procedures with the ISO standard;
- f. Monitor and supervise the project.

2. Technical secretariat

- 2.4 The steering committee will be vested with a technical secretariat manned by the national program coordinator, whose duties will include issuing recommendations for the formation of technical committees as required for each phase of system implementation and drawing up the required reports for presentation to the Ministry of Economy and Finance.

- 2.5 In addition to the duties outlined in the previous paragraph, the national program coordinator will also be responsible for:

- a. recruiting necessary consultants for the program activities;
- b. drawing up consulting contracts and required documentation for procurements;
- c. preparing semiannual reports for submission to the Bank and the Ministry of Economy and Finance;
- d. coordinating the work of different technical committees;

3. Technical committees

- 2.6 The make-up of technical committees will vary, depending on the status of the quality plan at the time. In any event, all such committees will include the designated facilitator or facilitators for each functional area. Committee members must have an extensive knowledge of the functions performed by their respective departments, must have attended the training courses conducted as part of the program and must be committed to the institution of quality systems. They will be responsible for:
- a. evaluating existing quality control procedures;
 - b. planning the particulars of the ISO 9000 project;
 - c. shaping procedures, drawing up operating instructions, and preparing the quality assurance manual;
 - d. training other staff members in ISO 9000 standards;
 - e. coordinating implementing activities in different departments;
 - f. overseeing the progress of implementation efforts and presenting status reports to the steering committee on the prevailing standard of quality;
 - g. furnishing advice on corrective measures based on observations formulated during the audits;
 - h. helping management prepare for and conduct the review procedure;
 - i. collaborating with consultants and specialists in setting up the quality system.

III. COST OF SETTING UP THE QUALITY SYSTEM

- 3.1 The estimated cost of setting up the quality assurance system at the National Customs Administration is equivalent to US\$1.4 million, as per the itemized budget presented on the following page.

COST CATEGORIES	IDB	LOCAL	TOTAL
2.0 CONSULTING SERVICES	508,400	40,000	548,400
2.1 Fees:			
INTERNATIONAL CONSULTANTS:			
Expert in quality systems (5 months x US\$6,000)	30,000		
LOCAL CONSULTANTS:			
National coordinator (18 months x US\$6,000)	108,000		
Computer experts (6 months x US\$2,400)	14,400		
(6 months x US\$2,500)	15,000		
(6 months x US\$2,200)	13,200		
(24 months x US\$1,800)	43,200		
Experts in organization and methods (30 months x US\$2,500)	75,000		
(6 months x US\$3,000)	18,000		
Expert in customs legislation (18 months x US\$3,000)	54,000		
Auditor (16 months x US\$2,500)	40,000		
Administrative assistants (18 months x US\$1,800)	32,400		
(18 months x US\$1,400)	25,200		
CERTIFICATION FIRM		40,000	
2.3 Other consulting service costs			
Per diems: (US\$200 x 150 days)	30,000		
Travel: (10 trips x US\$1,000)	10,000		
3.0 TRAINING	80,000	50,000	130,000
3.3 Internships (100 days x US\$200)	20,000		
Local travel and per diems		30,000	
Courses on quality systems	60,000		
3.5 Training materials		20,000	
5. FINANCE CHARGES	7,500	5,500	13,000
5.1 Inspection and supervision (1%)	7,500		
5.2 Credit fee (0.75%)		5,500	

COST CATEGORIES		IDB	LOCAL	TOTAL
6.0 GENERAL SUPPORT		100,000	475,000	575,000
6.1	Facilities		25,000	
6.3	Equipment	100,000	450,000	
-	Computer equipment:			
	8 network servers	180,000		
	200 laser printers	240,000		
	50 computers	100,000		
-	Training equipment:			
	Multimedia equipment	30,000		
7.0	PUBLICATIONS		30,000	30,000
98.	CONTINGENCIES	54,100	49,500	103,600
TOTAL		750,000	650,000	1,400,000

PROPOSED RESOLUTION

PERU. TECHNICAL COOPERATION LOAN FOR THE IMPLEMENTATION
OF A QUALITY ASSURANCE SYSTEM FOR THE NATIONAL CUSTOMS ADMINISTRATION

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreements as may be necessary with the Republic of Perú and to adopt such other measures as may be pertinent for the execution of the plan of operations with respect to a Technical Cooperation Loan for the Implementation of a Quality Assurance System for the national Customs Administration, referred to in Document PR-_____.

2. That up to the sum of US\$750,000, is authorized for the purposes of this resolution, chargeable to the Single Currency Facility of the Ordinary Capital of the Bank.

3. That the above-mentioned sum shall be provided on a reimbursable basis.