

BOLIVIAN CUSTOMS REFORM AND MODERNIZATION PROJECT

(BO-0159)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Bolivia	
Executing agency:	Aduana Nacional de Bolivia (Bolivian Customs Administration)	
Amount and source:	IDB (FSO):	US\$5.00 million
	Local:	US\$1.25 million
	Total:	US\$6.25 million
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	48 months
	Interest rate:	1% for 10 years, 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.50%
Objectives:	<p>The project's general objective is to support and finance the reform and modernization of the Bolivian Customs Administration (ANB), to strengthen this agency's institutional capacity and generate more revenue for the treasury.</p> <p>Specific objectives are to:</p> <ol style="list-style-type: none"> a. Assist the Bolivian government in implementing, administering and enforcing the new Customs Act, particularly as regards the court system. b. Support the development and implementation of a computer system for Customs operations and the adaptation of operating procedures to expedite Customs clearance of imports. c. Strengthen the goods-valuation area in conformity with the Valuation Code of the World Trade Organization (WTO), and strengthen the ANB Compliance Control area. d. Support the establishment of an ANB Ethics Office. 	

Description:	<p>The project the Bank would fund by way of the loan proposed here is part of the Bolivian Customs Reform and Modernization Program (PROMA) described in the first chapter of the proposal that follows. It would have five components: (i) a system of <i>Customs Tribunals</i>, to help ANB set in place the Customs jurisdiction system prescribed in the Customs Act and produce rules and regulations mandated by that law; (ii) <i>compliance control</i>, to improve yields and efficacy of ANB post-import checks; (iii) <i>a computer system</i> for Customs administration, entailing support for maintenance and migration of the current system plus adaptation of a new automated system to meet the needs of Bolivia's Customs system; the new system has been chosen after a thorough assessment by independent consultants selected by the World Bank in coordination with the International Monetary Fund and the IDB; (iv) <i>valuation of goods</i>, to better equip ANB to perform that function in conformity with the WTO Valuation Code and make it easier for commercial operators to fulfill value-declaration requirements for their goods; and (v) establishment of an ANB <i>Ethics Office</i> to provide guidance to ANB staff on standards of conduct.</p>
The Bank's country and sector strategy:	<p>In its strategy for operations with Bolivia the Bank is supporting the government's efforts to reduce poverty, fostering sustained growth. The three strategy focuses are: (i) economic growth and creation of opportunities; (ii) human capital development and access to basic social services; and (iii) support for governance and consolidation of reforms. The project proposed here is in line with this strategy, as it is expected to have an impact on two pillars of the government's program: the <i>institutional apparatus</i>, by way of in-depth reforms of the Customs Administration that began with passage of the Customs Act, and <i>opportunity</i>, by furthering economic growth and the opening of opportunities. One outcome sought through the reform is increased revenues from foreign-trade levies, to generate more money to pay for public services. Making the Customs system run more efficiently and curbing contraband will enhance the climate for investment and fair trading.</p>
Environmental and social review:	<p>According to the review by the Bank's Committee on Environment and Social Impact, the project would have no significant adverse effect on the environment, and would produce social benefits. Social gains would take the form of more transparent Customs operations, less corruption, higher National Treasury revenues, and hence more funds available for the country's other priority investment programs (paragraph 4.7 of the proposal).</p>

Benefits:	<p>The project's principal benefits will be increased Customs revenues, giving Bolivia more money to pay for other priority investment programs; a more attractive climate for private investment when unfair competition is reduced and trade controls are improved; and less corruption, which will enhance the country's image at home and abroad.</p>
Risks:	<p>The chief risk in previous cooperation initiatives was political input into Customs decision-making and operations. The result was arbitrary appointments of Customs agents who had no technical training and no incentives to perform their work with integrity in a permissive environment. The commitment worked out across the political spectrum and the new Customs Act have paved the way for an end to undesirable practices, so Bolivia can build a Customs Administration staffed by qualified officers, selected by reference to objective, technical criteria and paid decent salaries. Actions taken to follow through on these expectations will be monitored throughout the program, this being a prerequisite for continued financing for the planned activities.</p>
Special contractual conditions:	<p>Before project funds may be disbursed, the executing agency would have to demonstrate to the Bank's satisfaction that: (a) the subsidiary agreement between that agency and the Ministry of Finance has entered into effect, setting out terms and conditions for transfer of the loan proceeds (paragraph 3.2); (b) the Program Executing Unit has been set up and four consultants have been hired to staff it (paragraph 3.11); (c) two consultants have been engaged to support the computer-system activities (paragraph 3.12); and (d) the annual operating plan for 2000 has been presented as part of the initial report on the project (paragraph 3.14).</p> <p>As a condition for disbursement of funds for the computer-system component, the executing agency must demonstrate to the Bank's satisfaction that the contract that agency signed with the United Nations Conference on Trade and Development (UNCTAD) has entered into force, in conformity with terms and conditions agreed upon in advance with the Bank (paragraph 3.13).</p> <p>As one special contractual condition relating to the project's execution, during the second half of each calendar year throughout the life of the project (at least 60 days before the year-end) the executing agency is to submit, to the Bank's satisfaction, the annual operating plan for the following year (paragraph 3.15).</p>

As a further special condition, it is recommended: (a) that US\$302,000 in retroactive financing be approved for expenditures incurred against the Bank's financing as from February 1, 2000; and (b) that up to US\$75,500 be recognized for expenditures incurred against the local counterpart as from February 1, 2000. It has been verified that Bank procedures were adhered to in procuring the goods and services (paragraph 3.27).

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

Exceptions to Bank policy:

See "Procurement" below.

Procurement:

As an exception to the established procedure that requires open calls for proposals for consultant selection, it is recommended: (a) that UNCTAD be hired directly to install the SIDUNEA++ computer system, by virtue of that agency's technical and institutional advantages in this field; this would adhere to the requirements in chapter GS-403 of the Procurement Manual (paragraph 3.21), and (b) that three consultants with expertise in the fields of Customs and computer systems be hired directly. ANB hired these consultants in 1999, with World Bank funding, to start off Customs reform activities. The preparation, implementation, and execution of the project proposed here will depend on the continuing services of these consultants, who were engaged following World Bank procurement procedures. Given their specialized expertise in these fields and the fact that they are thoroughly familiar with the Customs reform effort, it is recommended that IDB loan proceeds be used to fund their continuing services, given the manifest technical need for same. This circumstance is provided for in the general procurement policy for consultant services (paragraph 3.20).

Goods will be purchased following the Bank's standard procedures. International open calls for proposals must be organized for any consulting contract worth over US\$200,000. International competitive bidding will be mandatory for the procurement of goods costing US\$350,000 equivalent and up.

The project will require numerous consulting and procurement contracts. To expedite the project and the Country Office's supervision work, it is recommended that the requirement of prior consultation with the Bank apply only for the selection and hiring of consultants or procurement of goods costing US\$20,000 equivalent or more. For consulting or procurement contracts below that threshold, shopping (solicitation of at least three bids) would be required; all such contracts would be subject to ex post review.

I. FRAME OF REFERENCE

A. Macroeconomic situation

- 1.1 The program of structural reforms launched by Bolivia in 1985 restored macroeconomic stability and spurred moderate growth. As part of the first-generation reforms carried through between 1985 and 1993 the country unified the exchange rate, lifted restrictions on imports and capital movement, made the labor market more flexible, brought in a system of foreign-investment guarantees, conducted sweeping tax reforms, abolished official prices, and freed interest rates. This package of measures stabilized prices and narrowed the fiscal deficit. In 1994 Bolivia embarked on a set of second-generation reforms with support from the IDB, the World Bank, and an International Monetary Fund (IMF) enhanced structural adjustment facility (ESAF) for 1994-1997. Focuses of this second round of reforms were decentralization, capitalization of public enterprises, reform of the State, and education reform.
- 1.2 The second set of reforms have been carried through with little impact on fiscal balances, other than the cost of pension reform which increased the deficit from 3.3% of GDP in 1997 to 4% in 1998. The deficit was funded largely through external concessional resources (2.8%), supplemented by the sale of domestic debt issues (1.2%). The deficit for fiscal year 1999 is expected to be 3.7% of GDP.
- 1.3 The government signed an extension of the ESAF to July 31, 1998, conditions of this arrangement being deeper reforms and continuing macroeconomic stability. In September 1998 the government and the IMF signed a further ESAF program for 1998-2001.
- 1.4 Keynotes of Bolivia's economic performance in 1999 were 0.8% growth and 3.1% inflation. Managing the fiscal deficit posed serious challenges for the government, though the target agreed on with the IMF was surpassed that year. The country has set new fiscal targets with the IMF for 2000-2001, with a ceiling of 3.7% of GDP. This would require national saving equal to 1.8% of GDP (equivalent to US\$144 million annually), a figure that is unlikely to be workable without cuts in public-investment budgets. For national saving to be boosted, the Treasury will need to bring in higher revenues from domestic excises and customs duties.
- 1.5 The structural reforms are expected to proceed as planned. The international community, and the Bank in particular, have supported and will continue to support Bolivia's reform efforts in a number of areas. The challenge for the 2000-2002 reform agenda is to prepare the terrain for a substantial reduction in poverty. Goals on this agenda are to: (i) improve governance; (ii) modernize labor legislation; (iii) strengthen fiscal management in local governments; (iv) deepen health and education reforms; (v) finish the privatization process; and (vi) continue to strengthen the financial sector and deepen capital markets.

B. The government's action plan

- 1.6 The government's plans fit into a much broader framework, mapped out through a government-sponsored "National Dialogue" among public officials, politicians, and representatives of different segments of civil society. (Annex I-1 in the technical files, regarding the government's institution-strengthening strategy, describes the action plan in detail.) Out of that first stage in the dialogue came four focuses that became the four pillars of the official action plan: *Opportunity* (creation of conditions in which the population at large can share in the benefits of growth); *Institutional apparatus* (development of institutions and capacity of the State, by modernizing the workings of government and through reform and modernization of the judicial system, decentralization, and curbing of corruption); *Equity* (improvement of living conditions by making essential public services such as education, health, housing, and rural investment available to many more Bolivians), and *Dignity* (uprooting the drug trade).
- 1.7 Much of the National Dialogue was devoted to an examination of the institutional framework for development, in which issues of legal certainty, political participation in a decentralized system, eradication of corruption, and an efficient, professional civil service figure prominently. This analysis ties in with Bolivia's institutionalization and organization efforts since the restoration of democracy in 1982 and the 1985 structural adjustments. Important fruits of that process were the establishment of the National Electoral Tribunal; the Government Administration and Control Act (SAFCO); a new Civil Service Program; the Central Bank Act, by virtue of which the monetary authority became independent of the Executive Branch; the Decentralization of Government Act and Popular Participation Act; judicial reform; the Civil Servants Statute, which sets out conditions for government career service, and others.
- 1.8 The National Integrity Plan (PNI), a strategy instrument for improving Bolivia's institutions, has its roots in the above-mentioned dialogue and the consensus built as to the need to tackle the country's most serious problems. The government invited a mission made up of World Bank and Transparency International representatives to look at the feasibility of coordinating actions to address the problem of corruption. The World Bank prepared a Public Sector Modernization Program, then approved a US\$72 million Institutional Reform Project (PRI)—US\$32 million of it to be funded by the World Bank as project BO-PE-62790—to comprise the first part of the National Integrity Plan. The object of the PRI is to create the institutional framework for a modern public sector and build a number of agencies or organizations that can serve as models. This will entail work in two directions: (i) horizontal (systemic) reforms in the areas of human resources management, national integrity, results-based budgeting, and performance evaluations of institutions and of their staff; and (ii) vertical implementation of these reforms in the "pilot agencies" selected.

C. The Customs Reform and Modernization Program (PROMA)

- 1.9 One government agency selected as a pilot institution is Bolivia's Customs Administration (ANB). Components of the Customs Reform and Modernization Program (PROMA), which will cost approximately US\$30.5 million overall, are as follows: (i) institutional management (human resources, financial management, internal audit); (ii) regulations (setup of a Valuation Department, development of specific regulations); (iii) compliance control (setup of an Ex Post Inspection Department, support for the Customs Operational Audit area, support for operations of the Technical Unit for Customs Service Audits, logging and investigation of reports of wrongdoing); (iv) computer systems (setup of an integrated information management system and a communications system); (v) legal affairs; and (vi) public relations and institutional image.
- 1.10 Table 1 summarizes the Program's funding sources and the general areas being financed by each.

Table 1
ANB – General funding plan
(amounts in millions of U.S. dollars)

Funder	Approval date	Objective	Amount	Executing agency
World Bank	17/07/99	Civil service program, support for consulting services and public relations/information plan	10.0	Office of the Vice President of Bolivia
IDB	04/2000 (estimated)	Support for Valuation and Ex Post Inspection Depts., adaptation and implementation of integrated computer system, Customs Tribunals system, and Program administration	5.0	ANB
Nordic Fund	To be determined	Operational and consulting support	4.6	ANB
Japan	08/04/98	Support for hardware and communications equipment, and the public relations/information plan	2.9	ANB
IMF	Ongoing	International coordinator	0.3	ANB
ANB	Ongoing	Local counterpart funding	7.7	ANB
Total			30.5	

Source: ANB, based on information from the Office of the Deputy Minister for Public Investment and External Financing.

- 1.11 One funding source for the Program at present is a US\$10 million World Bank loan (part of its US\$32 million Institutional Reform Project loan) to assist with the human resources area and the public relations/information plan. These funds will be

used to recruit and pay skilled personnel, primarily for the institutional management component. Salary payments from these funds will be phased out gradually over five years, ultimately becoming part of the ANB budget. A grant of approximately US\$3 million from the Government of Japan will be used mainly to support the public relations/information plan and for computer hardware purchases. A credit in a similar amount from the Nordic countries will help pay for consultants, internships, and the telecommunications area. It has been agreed with ANB that part of the funds the World Bank and Japanese government will provide for the public relations plan will pay for publicity and a public education and awareness campaign to promote the PROMA components the IDB will be funding.

- 1.12 Underscoring the Bolivian government's commitment to Customs reform was its decision to include in its IMF arrangement the attainment of selected targets of the reform program. The IMF was involved in the design of this program and is lending technical assistance to the authorities in the form of the services of an international coordinator.
- 1.13 The Bolivian authorities also requested IDB participation in the Customs Reform and Modernization Program. In response, the Bank organized a programming mission in June 1999 and added the operation to the proposed 2000 lending pipeline. Chapter II of this proposal outlines the components identified by the Bank for the operation during subsequent missions.

D. The Bolivian Customs Administration

- 1.14 In the past, Bolivia's Customs service came under the General Customs Directorate, part of the Ministry of Finance. Its primary mandate is to monitor and inspect goods moving across Bolivia's borders by land, water, or air, and to assess and collect duties on such traded goods. Over the past four years, Customs revenues have accounted for 33%, on average, of overall National Treasury revenues. Table 2 shows the yearly breakdown.

Table 2
Customs revenues as a percentage of aggregate National Treasury revenues

Year	Import levies			Total
	Bound duties	VAT and excises	Oil and gas	
1998	7.2%	27.9%	2.1%	37.2%
1997	8.3%	22.8%	0.6%	31.7%
1996	6.9%	31.4%	0.7%	39.0%
1995	7.8%	17.4%	0.2%	25.4%

Source: ANB Compliance Department

- 1.15 Table 3 presents total revenues collected by Customs from bound duties (BDs) and value-added tax (VAT) on imports, and average yields of these two levies. For the VAT, average yields are very close to the nominal tax rate (12%). This does not hold true for BDs, which have two tariff levels: a 10% general rate and a 5% rate applied to capital goods. The fact that average BD yields are so similar to the capital-goods rate could suggest that the bulk of Bolivia's imports (some 70%-80%) are capital goods. Since this is not the case in the Bolivian economy, there are two possible conclusions: either the bulk of imports are being declared as capital goods, or a large share of consumer goods entering the country are contraband or are incorrectly declared in Customs. Weaknesses in the workings of the Customs Administration make it difficult to secure other evidence of revenue losses. Import figures are taken from entries of goods reported to Customs, at their declared value. Underinvoicing cannot be detected via this method.

Table 3
Bound tariff and VAT revenues, 1994-1999
(amounts in millions of U.S. dollars)

Revenues	1994	1995	1996	1997	1998	1999
Imports CIF	1,277	1,545	1,799	2,143	2,627	2,197
Bound tariff (BT) revenues	84	91	92	116	131	106
BT revenues/CIF value (1)	6.57%	5.89%	5.11%	5.41%	4.98%	4.82%
VAT revenues	162	187	212	282	319	264
VAT revenues/CIF value	12.68%	12.10%	11.78%	13.16%	12.14%	12.01%
BT+VAT/CIF value	19.25%	17.99%	16.89%	18.57%	17.12%	16.83%

(1) BT revenues include the "unbound" tariff.

- 1.16 A much more serious issue, with heavier repercussions on revenue intake than a failure to properly administer the laws, is the Customs Administration's inability to check the flow of goods entering the country illegally (contraband). By definition, it is very difficult to put a value on the contraband trade. No customs duties are being paid on these items, which likewise are evading the excises levied on similar goods being produced and/or sold in Bolivia. This deprives the country of revenue, severely distorts competition on the home market, and discourages new investment. According to a study by Bolivia's National Chamber of Commerce on "contraband and the underground economy", the contraband trade may be worth over US\$1 billion; other estimates put the figure at US\$300 million to US\$500 million. Any such number will be debatable and difficult to prove, but there appears to be a unanimous acknowledgement of how serious the situation is, to the point of considering that "curbing contraband is no longer just a question of technical processes or efficient Customs administration; an even more prominent issue now is the increasing political content of the fight against the contraband trade and its effects on the economy."

- 1.17 The diagnostic assessments done of Bolivian Customs since the early 1990s concur that the problem is very serious, and trace it mainly to the following factors: (i) institutions too weak (without the political backing) to be able to enforce the law; (ii) high turnover and weak technical skills of much of the staff complement because politics plays a role in their appointment and tenure; (iii) lack of support infrastructure for border checks; (iv) slow operating procedures and controls that are ineffectual, where they exist at all; and (v) as a result of the foregoing factors, in practical terms, fraud and contraband activity can go unpunished. The most recent assessment was done by the IMF in late 1997 as a prelude to its Customs reform proposal. Its report acknowledged the merits of privatizing border customs-houses and warehousing operations, but underscored continuing problems in the human resources area (lack of training, "ad honorem" political protégés on staff who have informal decision-making capacity in the Customs Administration) and lack of a truly automated system for Customs administration and operations.
- 1.18 In the 1990s, the Bank assisted the Bolivian government in efforts to revamp the nation's Customs services by way of two technical-cooperation operations (ATN/SF-3421-BO and 895/SF-BO). The first was for a total of US\$1.1 million, US\$200,000 of it furnished by the United Nations Development Programme (UNDP). Its objective was to design and implement an information system for import controls, assess the state of Customs system operations, and develop a program to restructure and strengthen the system. Complementing that first operation was the subsequent US\$1 million technical-cooperation operation designed specifically to implement the structure devised for the General Customs Directorate and set up the new automated Customs systems designed with funding from the first program.
- 1.19 The first of those operations achieved its objectives. The second fell short of some goals because of delays in decision-making that more than once brought the project to a halt. Among the salient achievements of the second project were: (i) selection of executive and technical personnel following UNDP-administered objective, open, transparent procedures; and (ii) tendering and awarding of concession contracts to the private sector for operation of Customs complexes in Bolivia's largest cities (La Paz, Santa Cruz, Cochabamba), which helped improve the workings of Customs in terms of controls and revenue collection. New custom-houses were built at some border crossing points, to track goods from their first point of entry. However, political changes slowed the pace of the project and occasionally erased the gains achieved; for a time, the project was at a standstill. In 1999, after one such interval of inactivity, the government and the Bank agreed to cancel the undisbursed balance of loan 895/SF-BO, thereby implicitly acknowledging that a broader approach was needed to Customs reform, encompassing society at large as well as resolute support from every political quarter.

- 1.20 The government secured support from private-sector trade organizations that understood the urgent need to do whatever had to be done to overhaul the country's Customs services, and built a political consensus to secure approval of the measures. The result was the mid-September 1997 Executive Branch Organization Law, whereby the Customs Directorate became the National Customs Service (SNA). Supreme Decree 25279 of January 1999 approved the Bolivian Customs Reform and Modernization Program, which includes a short-term contingency plan plus a general plan with the following targets: (i) implement an integrated computerized system for Customs operations; (ii) complete the legal framework governing the agency's operations; (iii) adopt rules and procedures geared to the integrated information system; (iv) strengthen the agency from an institutional standpoint; (v) improve human resources management; and (vi) better equip the agency for ex post checks.
- 1.21 The most resolute step toward Customs reform was approval of the new Customs Act on July 28, 1999, with the consensus and support of political parties, to govern legal dealings between the Customs Administration and foreign-trade agents and operators. The Act also brings in two major changes: (i) it replaces the SNA by the Bolivian Customs Administration (ANB), established for an unlimited duration as "an independent public-law agency with nationwide jurisdiction, legal status, and its own assets"; and (ii) ANB is given "jurisdiction to hear and rule on infractions of Customs laws and regulations" (Section 189 of the Act); offenders may be sentenced to prison. The Act earmarks for ANB the equivalent of up to 10% of bound-tariff revenues, and contains provision to keep politics out of ANB staff appointments. The agency's highest authority is its Board, consisting of a Commissioner of Customs and four directors. The President of Bolivia appoints the Commissioner and directors from the respective short-lists approved by a two-thirds vote of the Bolivian House of Representatives. Board members serve for five years, with one director changing each year.

E. Strategy and rationale for the Bank's participation

- 1.22 In its strategy for operations with Bolivia the Bank is supporting the government's effort to reduce poverty, fostering sustained growth. The three strategy focuses are: (i) economic growth and creation of opportunities; (ii) human capital development and access to basic social services; and (iii) support for governance and consolidation of reforms. The Project proposed here is in line with this strategy, as it is expected to have an impact on two pillars of the government's program: the *institutional apparatus*, by way of in-depth reforms of the nation's Customs system that began with passage of the Customs Act, and *opportunity*, by furthering economic growth and the opening of opportunities. A specific outcome sought through the reform is higher revenues from foreign-trade levies, whereupon the government will have more money to pay for public services. Making the Customs system run more efficiently and curbing contraband trade also will enhance the climate for investment and fair trading.

- 1.23 Guided by that strategy and taking into account the performance of Bank operations in Bolivia, the Bank and the government have agreed on a set of actions, which are outlined in the current country paper. Among other desirable government initiatives listed there are a strengthened civil service, stronger national, departmental, and municipal institutions, and consolidation of Executive Branch reforms. Bolivia has made great strides in reform of the State. To build on those successes the country will need programs to modernize the public sector, decentralize and deconcentrate government operations, and bring in new policies, rules and management systems to strengthen public agencies. This should go hand in hand with initiatives to modernize the judicial system and its dealings with civil society, these being essential to improve governance.
- 1.24 The Bank has been supporting Bolivia's moves to modernize the State, strengthen the civil service, and improve the workings of government through a number of operations to help implement the Government Administration and Control Act, the National Public Investment System, support the workings of departmental and municipal government, and others. One key focus of the Bank's action is support for comprehensive strengthening of decentralized government, in the form of technical cooperation in four areas that are critical for institutional development: (i) strategic planning and implementation of administration and control systems; (ii) management of departmental and local public investment in the framework of the National Public Investment System; (iii) social services management; and (iv) human resources administration, this being crucial for institutional strengthening of the decentralized public sector.
- 1.25 The Bank is actively involved in Bolivia's decentralization process by way of technical cooperation it is furnishing under the following operations: (i) the National Governance Program (loan 954/SF-BO for US\$12 million), which includes components for institutional-strengthening of departments and municipios; (ii) Program of Support for Decentralization of the National Public Investment System (loan 993/SF-BO for US\$7 million) to strengthen capacity for decentralized public-investment management; (iii) the Social Management Support Program (loan 982/SF-BO for US\$2 million), which has one component targeted to strengthening departmental governments for the management of basic health, education, and other services; and (iv) Program for Support of a Decentralized Civil Service (ATN/SF-5748-BO for US\$350,000) which will assist departmental governments in instituting human-resources management models.
- 1.26 To set in place the kind of institutional and regulatory frameworks that will be needed for broad-based growth, the Bank proposes to assist the government in its plans to boost revenue-collection capacity, particularly in the Customs system. On the general taxation front the Bank will be continuing its effort this year with the present program and two technical-cooperation operations approved in 1999: (i) institutional strengthening of Bolivia's Excise Bureau (loan 1043/SF-BO for

US\$3.2 million) and (ii) a program to support the 2000 National Population and Housing Census (loan 1046/SF-BO for US\$7.4 million).

II. PROJECT OBJECTIVES AND DESCRIPTION

A. Objectives

- 2.1 The Project's overall objective is to support and finance reform and modernization of the Bolivian Customs Administration (ANB), to strengthen that agency's institutional capacity and generate more revenue for the Treasury.
- 2.2 Specific objectives are to:
- a. Assist the Bolivian government in implementing, administering and enforcing the new Customs Act, particularly as regards the court system.
 - b. Support development and implementation of an automated Customs administration system and adaptation of operating procedures to streamline Customs clearance of goods.
 - c. Strengthen the goods-valuation area in conformity with the Valuation Code of the World Trade Organization (WTO), and bolster ANB's compliance control area.
 - d. Support the establishment of an ANB Ethics Office.
- 2.3 The Project's goals are presented in the logical framework in Annex II-1. An important consideration here is that, though boosting revenues is one of the Project's aims, raising Customs revenues will depend on factors beyond the Customs Administration's control. Specifically: trade facilitation programs and trade agreements with other countries are arranged and administered by other ministries. In the case of Bolivia, the dismantling of tariffs by way of trade agreements with other Andean Community member states and, particularly, with MERCOSUR (Bolivia's leading trading partner, overall) tend to push down bound-tariff revenues. With that in mind, Bolivia and the Bank decided that, in this Project, revenue targets for ANB-administered levies would be the same as the targets Bolivia and the IMF establish in their agreements.

B. Project description

- 2.4 As was noted earlier, the Project the Bank would fund by way of the loan proposed here is part of the Bolivian Customs Reform and Modernization Program (PROMA). It is designed to parallel the funding operations listed in paragraph 1.11, all of them supporting Customs reform. The activities the proposed IDB loan would help pay for pursue the objectives outlined above. The following is a description of the Project components and the budget for each (where each component includes consultant costs, equipment, training, and general support).

1. Customs Tribunal system (US\$340,000)

- 2.5 This component would assist in the implementation of the Customs jurisdiction system mandated by the Customs Act and the development of rules and regulations required under the Act. The cornerstone of the new jurisdiction system are Customs Sentencing Tribunals that will begin operating when the new Code of Criminal Procedure takes effect in mid-2001. Magistrates will be appointed by the Judiciary Council; Customs prosecutors will be appointed by Bolivia's Attorney General for four-year terms, selected from a short-list put forward by the District Advisory Councils. Temporarily, until the new system is on stream, District Criminal Court judges will hear and rule on cases involving infractions of Customs laws.
- 2.6 The following are the planned activities to equip the Customs Administration to operate effectively and efficiently and to administer and enforce Customs laws:
- a. Conduct training workshops, courses and seminars on the Customs Tribunal system for Customs magistrates, prosecutors, officials, and staff. On the list of topics will be new judicial procedures pursuant to the Customs Act, and Customs rules and formalities required in other countries' laws and in international agreements to which Bolivia is a party.
 - b. Produce documents to publicize and explain the new legal system for Customs matters.
 - c. Design and implement a reporting system to track legal proceedings.
 - d. Produce a compendium of laws and regulations, including case law and doctrine on the application of Customs laws and regulations.
 - e. Purchase computer hardware needed to support the publicity and information activities and track Customs Tribunal cases.
 - f. Set up a mechanism for publicizing Customs Tribunal rulings and decisions handed down in other forums, to help the system run efficiently and coordinate action approaches in future.

2. Compliance control (US\$528,982)

- 2.7 The aim of this component is to improve the yield and efficacy of Customs inspection services. This will entail work at every stage of the compliance tracking process: selection of cases and operators, execution, and follow-up and closing of cases. In addition, the new customs valuation method will require that Customs officers be trained to administer fair treatment and at the same time be able to check and/or investigate the declared values of goods at the point of entry and *ex post facto*. All of this will require the following activities:

- a. Develop risk-analysis methodologies based on the processing of Customs operations data and using statistical and mathematical methods.
- b. Devise procedures for logging reports of wrongdoing and checking informants' bona fides, balancing confidentiality concerns against the credibility of the information received; define criteria for building this process into the compliance program.
- c. Arrange internships for at least four Customs officers with Customs Services of countries that have a solid track record in compliance control.
- d. Give Compliance Department auditors specific training in audit techniques for post-import checks.
- e. Develop procedures and produce manuals for compliance officers at every stage, and train staff in their use.
- f. Develop techniques and methods for investigating declared values that appear to be at odds with WTO Agreement requirements and are not corrected when the goods are presented for entry.
- g. Institute an arrangement for dissemination within ANB of rulings by Customs Tribunals and other bodies that pertain to compliance control work, in order to enhance their efficiency and coordinate future action approaches.

3. Computer system (US\$3,356,030)

- 2.8 In 1999 Bolivia's Customs Administration was working with a number of computer systems running on different platforms that had been made Y2K-compliant, at the same time as it was migrating to a more advanced platform. Those systems were designed and developed at different times using different tools but, above all, with a short-range view, rather than a comprehensive and integrated approach to Customs administration. To remedy serious shortcomings in these systems, ANB decided to look for Customs software that met certain core requirements, with acceptable risk margins for implementation and operations. A Customs Operations and Informatics Assessment Team was set up, which as part of its field research assessed computer systems in use in four countries: MARIA in Argentina, SIGAD in Peru, SIDUNEA++ in El Salvador, and SAAI in Mexico. The team decided on the core requirements for a package and looked at the functionality of each of those systems. The evaluation methodology combined observations and structured interviews, to compare the features of the different packages. According to the study, the MARIA, SIGAD, and SIDUNEA++ systems all met the minimum requirements for a Bolivian system. A consultant specializing in Customs applications of information technology then did separate cost/risk evaluations of each system, which showed the SIDUNEA++ and MARIA systems to entail the least risk for implementation. The recommendation was that the SIDUNEA++ system be chosen because of its

lower cost. On the strength of the consultants' report, the ANB Board approved that recommendation on December 9, 1999.

- 2.9 To start off the informatics component (known in-house as PRISMA—Program for Customs Computer System Reform), ANB hired a PRISMA director and a PRISMA planning and development consultant. World Bank bridging funds and procedures were used for these hires. Subsequently, to assure the continuity of efforts to put the automated SIDUNEA++ system in place, the Bolivian government requested that IDB resources fund the continuation of those two contracts.
- 2.10 As a technical adjunct to the above-mentioned request, the government asked that UNCTAD be hired directly, using Bank funds. The grounds for the request were that UNCTAD has over 15 years' experience in automating customs operations through its SIDUNEA program, which is operating in more than 75 countries. Since UNCTAD developed SIDUNEA++, distributes it to any member state who requests it, and is responsible for all modifications, updates, and new versions of the core system, it has a technical and institutional advantage. The 36-month contract, worth about US\$790,000, would include funds to defray the cost of a variety of short- and long-term consulting contracts, travel and per diems, documents and training materials, and administrative expenses. UNCTAD would hire consultants and arrange for goods procurement following the Bank's standard procedures and adhering to other Bank policies regarding audits, advances, etc.
- 2.11 Adapting SIDUNEA++ to Bolivia's needs and getting it up and running in customs-houses nationwide will be done in eight not-necessarily-consecutive stages.
 - a. **Project organization**, to define and cost out activities required for successful implementation of SIDUNEA++. Consultants' terms of reference will be drafted and hiring will begin; the main risks facing the Project will be identified to be able to devise a preliminary plan to minimize their impact and ensure that targets can be met on schedule. This stage is expected to take about three months.
 - b. **Training** for Project staff and ANB staff involved in the Project for their specific tasks, equipment procurement, and provision of the necessary infrastructure for the Project. Expected duration of this stage is about three months.
 - c. **Development and implementation**. Activities for this component are: installation of SIDUNEA++ software; compiling and review of detailed procedures for each Customs regulation or formality, and deciding how SIDUNEA++ needs to be adjusted in line with the selected procedures. The changes will be made and new applications will be developed to expedite Customs operations. Throughout this stage, the risks identified up front will be

monitored closely, and measures will be taken as necessary to neutralize them. This stage is expected to take roughly one year.

- d. **Pilot project implementation.** A pilot project will be started up to simulate the operation of the Bolivian Customs system in its current configuration in tandem with existing systems, running the pertinent tests. Staff training will be stepped up during this stage to ensure a smooth system changeover. This stage would last about three months.
- e. **Operations feedback.** The development team will adjust the system as necessary, on the basis of information obtained through interaction of pilot-project users and staff of ANB's Standards and Development Department. This stage will take approximately three months.
- f. **Fine-tuning of the system.** From the aforementioned feedback on the system, the development team will fine-tune and debug SIDUNEA++ to make certain it will be accurate and run efficiently. These final touches will take about three months.
- g. **System transfer to ANB.** The transfer of SIDUNEA++ administration will include the delivery of methodologies for risk assessment and prevention, system operation and maintenance, and training. This phase will last about four months.
- h. **Operation.** UNCTAD and the SIDUNEA++ Implementation Support and Monitoring Unit (with personnel who were involved originally in the system's development, administration, and implementation, who by then will be on staff in ANB's National Systems Department) will periodically monitor the system's operation and lend technical support to ANB.

4. Goods valuation (US\$614,000)

2.12 The primary aims of this component are to: (i) expedite the transfer to ANB of functions now being performed by pre-shipment inspection agencies; (ii) strengthen ANB's capacity to perform these functions in keeping with the WTO Valuation Code; and (iii) help commercial operators fulfill their obligations vis-à-vis declaring the value of goods. The following activities will pursue these aims:

- a. Once a new contract is signed with the inspection agencies, a detailed plan and timetable will be drawn up for phasing out pre-shipment checks for selected classes of goods. A key consideration in this selection will be the relative risk of a class of merchandise for Customs purposes.
- b. A training and development program will be organized for staff selected to work in the Valuation Department and in Customs operations branches.

- c. The features of the database needed to underpin valuation work will be decided on, as will the relative merits of purchasing and adapting a database or developing a new one. In either case, the database must be integrated into the automated Customs system.
- d. A mechanism for feeding and updating the database will be devised and implemented. Information sources and procedures for securing information, responsibilities, and resource needs will be defined.
- e. A software program will be designed and developed for completion and filing or forwarding of import declarations.
- f. Merchandise-valuation procedures will be developed and applied, including operation of a Dispute Resolution Committee, with due regard to instruments and resources available and in conformity with the WTO Valuation Code and the Andean Community Decision.
- g. Commercial operators and agents will be trained in the theory and practice of the WTO Valuation Code and in Community and national rules and formalities.
- h. A policy for funding the valuation operations that ANB will be taking over will be developed to replace the system of fees now charged by import inspection agencies.

5. Ethics Office (US\$389,000)

2.13 The object of this component is to set up an Ethics Office in ANB to instill and monitor ethical conduct on the part of the agency's staff. In Bolivia there are currently three external elements comprising the necessary foundation for an ethical infrastructure for Customs administration: political will, a sound legal framework, and public scrutiny or monitoring of Customs operations and the conduct of Customs officers. Work needs to be done to develop the internal elements, so ANB's ethical substructure works efficiently. The following planned activities address those internal elements:

- a. **Accountability.** Develop mechanisms and procedures for effective monitoring of staff decision-making and actions. Devising, justifying, and publicizing procedures and arrangements will be part of the mechanisms.
- b. **Code of conduct.** Produce a code of conduct as a guide to ANB staff. This may be a legal corpus or an administrative document that sets out employees' legal obligations, such as reporting conflicts of interest, and their ethical obligations in discharging their duties.
- c. **Human resources policy.** Devise, in coordination with the Human Resources Department, a policy that will pursue the objective of encouraging a high

standard of conduct on the part of employees (recruitment, training, promotion, job tenure and compensation, bonuses, etc.).

- d. **Education and training.** Deliver a training and awareness plan for employees, to strengthen good practices and proper conduct by staff, organize courses for incoming or new staff on the role of the public service, pertinent legislation, and accountability mechanisms.
- e. **Creation of an Ethics Office** as an element of ANB operations to coordinate the workings of the agency's ethics infrastructure.

6. PROMA management and administration (US\$814,818)

- 2.14 By request of the Bolivian government, management and administration expenses referred to herein cover the cost of hiring consultants, providing training, and purchasing core equipment needed to set up the PROMA Executing Unit within the ANB structure. This unit will be in charge, inter alia, of procurement of goods and services and the administration of funds from the various donors (see paragraphs 1.11 and 3.8). Specifically, the funds will pay for four consultants to make up the Executing Unit team, including the Unit's director, an accountant, a procurement expert, and an assistant. The consultants' terms of reference are in Annex II-2 in the technical files.

C. Cost and financing

- 2.15 The total cost of the proposed Bolivian Customs Reform and Modernization Project is US\$6,250,000. The Bank would fund up to the equivalent of US\$5 million from the Fund for Special Operations; the Bolivian Customs Administration (ANB) would furnish the US\$1,250,000 balance as the local counterpart. Parallel financing from the IMF, World Bank, and other donors is not accounted for in this cost structure. Table 4 shows the total Project budget; a detailed breakdown by project component is in Annex II-3 in the technical files.

Table 4
Overall budget (in U.S. dollars)

Cost item	IDB	Local contribution	TOTAL
Consulting services ¹	3,262,375	43,118	3,305,493
Training	420,000	40,000	460,000
General support	413,135	724,782	1,137,917
Equipment	704,420	435,000	1,139,420
Finance charges ^{2 3}	50,000	7,100	57,100
External audits	50,000	0	50,000
Contingencies	100,070	0	100,070
Total	5,000,000	1,250,000	6,250,000

¹ Includes US\$790,000 to fund the UNCTAD contract.

² The US\$50,000 in finance charges under IDB is for inspection and supervision.

³ The US\$7,100 in finance charges under the local counterpart is for the credit fee.

2.16 Table 5 breaks down the proposed IDB contribution by component to show where the funds would be spent.

Table 5
Budget by component (in U.S. dollars)

	Jurisdiction	Compliance control	Computer systems	Valuation	Ethics Office	Executing Unit	TOTAL
Consultants ¹	70,000	253,000	1,938,575	307,200	165,600	528,000	3,262,375
Training	150,000	75,000	95,000	50,000	25,000	25,000	420,000
Equipment	35,000	41,900	567,120	54,600	5,800	0	704,420
General support	45,000	30,000	254,135	80,000	4,000	0	413,135
Contingency and finance charges ²	N/A	N/A	N/A	N/A	N/A	N/A	200,070
Total	300,000	399,900	2,854,830	491,800	200,400	553,000	5,000,000

¹ Includes US\$790,000 to fund the UNCTAD contract.

² US\$50,000 in finance charges is for inspection and supervision.

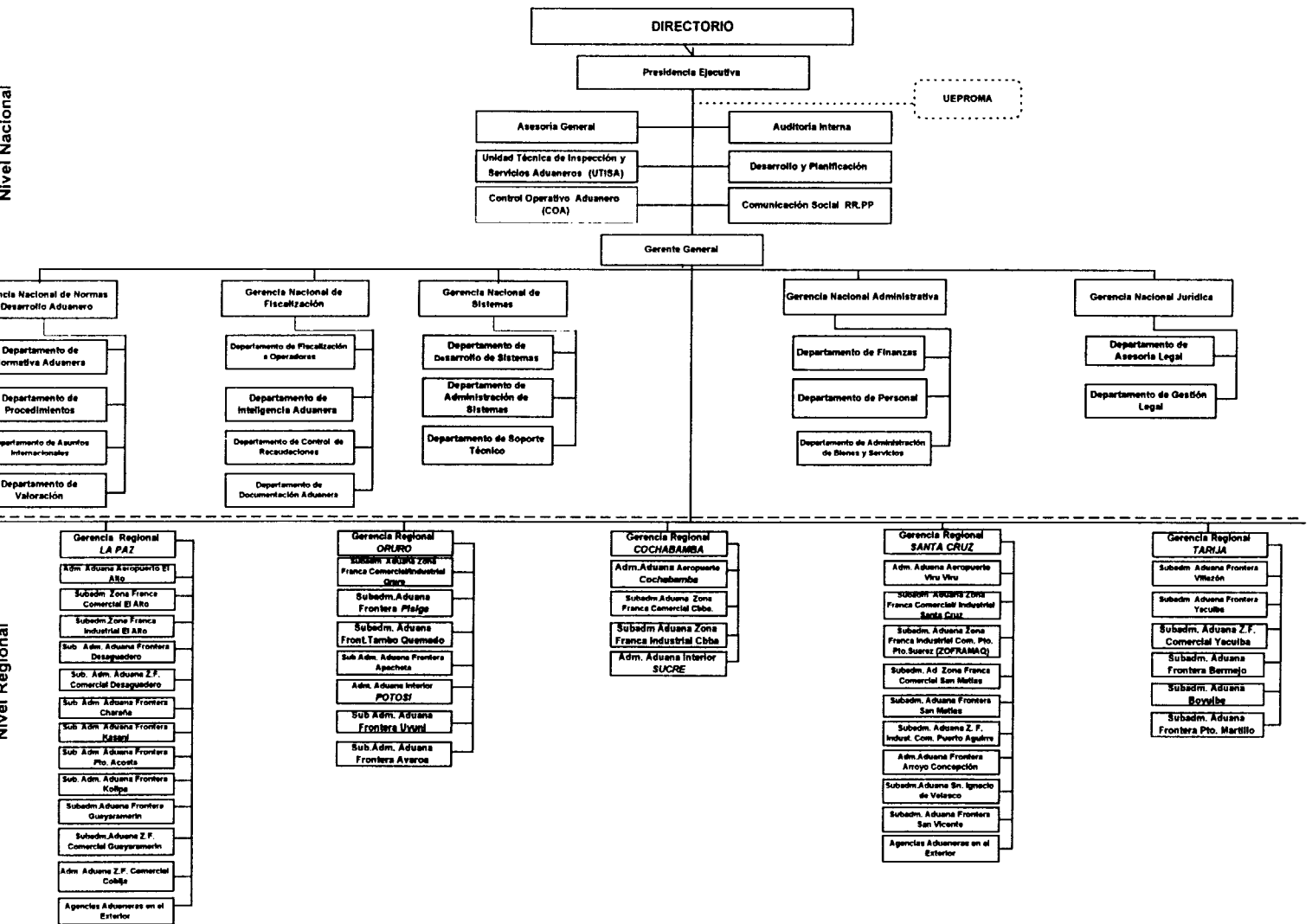
III. PROJECT IMPLEMENTATION

A. Borrower and executing agency

- 3.1 The borrower will be the Republic of Bolivia, which also will be responsible for timely allocation of counterpart funds. Representing the Republic of Bolivia will be the Ministry of Finance, which heads the sector in which the Bolivian Customs Administration (ANB) operates.
- 3.2 ANB will be the Project's executing agency. As such, it will be in charge of ongoing coordination with the Bank and will administer the Project's accounting and financial areas. **As a condition precedent to disbursement of the loan, the executing agency must demonstrate to the Bank's satisfaction that a subsidiary agreement has entered into effect providing for the loan proceeds to be onlent to the executing agency, and for that agency to furnish the local counterpart resources.**
- 3.3 ANB is a decentralized public-law agency established for an indefinite duration, with nationwide jurisdiction, legal status, and its own assets. It is overseen by the Ministry of Finance. ANB's core functions are to monitor and inspect goods moving across Bolivian borders by land, water, or air, and assess and collect duties on such traded goods. It is administered by a five-member Board, one member serving as Commissioner of Customs, the agency's highest authority. As illustrated in the organization chart that follows, six support units report directly to the Commissioner: (i) General Advisory Office; (ii) Technical Unit for Customs Services Audit; (iii) Customs Operations Control; (iv) Internal Audit; (v) Development and Planning; and (vi) Public Relations and Public Information. The operations area, likewise reporting to the Commissioner, is headed by the General Manager who oversees five headquarters departments and five regional bureaus (La Paz, Oruro, Cochabamba, Santa Cruz, Tarija). Each regional bureau has a number of offices and units in charge of the various operations areas required for Customs clearance of goods.
- 3.4 ANB's by-laws called for the creation of a four-member Special Committee to Monitor the Bolivian Customs Reform and Modernization Program, made up of the ANB Commissioner, two other ANB board members, and the General Manager. The committee's membership has been increased to seven, to include the Deputy Minister for Taxation Policy, representing the Ministry of Finance, the PROMA international coordinator, representing international cooperation, and a private-sector representative appointed by the Bolivian Business Confederation.

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Nivel Nacional



Nivel Regional

- 3.5 One of the core mandates of the Special Monitoring Committee is that all its members monitor ANB decision-making and ensure that the process is transparent. The Committee also will track and evaluate PROMA's execution, meeting at least every two months to review performance of the detailed work plan for the previous two-month period and approve the plan for the following period.
- 3.6 The international coordinator, whose services the IMF will be funding, will be a high-level international expert in Customs administration, in charge of coordinating the PROMA technical activities (paragraph 1.12).

B. Project implementation arrangements

- 3.7 Responsibility for preparing and executing the Project and for the PROMA overall will rest with a Program Executing Unit (PEU) to be set up within ANB. That unit also will administer funding received from other sources. It will be in charge of the entire area of consultant hiring and procurement to be funded with the Bank's loan, adhering to Bank procedures. The PEU is to coordinate closely with the General Manager's Office and the National Administrative Department. It will report directly to the ANB Board Commissioner.
- 3.8 By request of the government, ANB will be responsible for administering this Project and PROMA, by intermediary of the PEU, which will have the following functions: (i) coordinate actions to satisfy conditions precedent to disbursement of the loan; (ii) produce annual operating plans for the Project and status reports on the Program; (iii) arrange procurement of goods and services called for in the operation; (iv) handle contracting with individual consultants, consulting firms, trainers, and seminar and workshop coordinators, and authorize payments as services are performed; (v) arrange for a revolving fund of IDB loan proceeds to be set up and for subsequent replenishments, secure counterpart resources, administer funds, and prepare statements of account; (vi) prepare the Program's financial statements for audit, and be responsible for its accounting and financial records and for producing all Program-related reports; (vii) coordinate execution of the Program components; and (viii) ensure that the rules and contract conditions agreed on by the Bank and ANB are adhered to in the Program's implementation.
- 3.9 The executing agency (ANB), through the PEU, will maintain careful internal accounting and administrative control over Project funds. The accounting system is to be set up in such a way as to provide the documentation necessary to verify transactions and expedite the timely preparation of financial statements and reports. The Project records system must be set up so as to: (i) readily identify monies received from the different funding sources; (ii) show Project expenditures, in accordance with a Bank-approved chart of accounts, whether incurred against the Bank's contribution or out of other resources required for its complete implementation; (iii) provide sufficient detail to identify goods acquired and

services commissioned, and the use made of the goods and services; and (iv) cost out activities in each component.

- 3.10 Making up the PEU will be a director, an accountant, a contracts and procurement officer, and an assistant. The unit will coordinate with the National Administrative Department, receiving the logistical support it needs for its work. It will receive training from the Bank's Country Office in Bolivia and from the World Bank on such areas as disbursements and procurement.
- 3.11 To be able to start up the PEU in 1999, ANB hired a director for the Unit using World Bank bridging funds and adhering to World Bank procurement procedures. In its request to the IDB, the Bolivian government has asked that these consulting services continue, given the director's special expertise and understanding of the entire PROMA operation. Accordingly, it is proposed that proceeds of the Bank's loan be used to hire that director and the other three consultants listed above. **As a condition precedent to disbursement of the Bank's loan, the executing agency is to demonstrate to the Bank's satisfaction that it has set up the Executing Unit and has hired the four consultants to staff it.**
- 3.12 For the computer-system component, to be executed in the National Systems Department, ANB has asked to be able to continue with the consulting services of the PRISMA director and the PRISMA planning and development consultant. On the above-indicated grounds, it is recommended that **as a condition precedent to the first disbursement, the executing agency demonstrate to the Bank's satisfaction that it has hired the two consultants for this component.**
- 3.13 In order for UNCTAD to be hired directly for support, it is recommended as a condition precedent to disbursement of any funds under the computer-system component that the executing agency demonstrate to the Bank's satisfaction that that agency and UNCTAD have signed a contract, in conformity with terms and conditions agreed upon in advance with the Bank, and that the contract has entered into effect.

C. Monitoring and evaluation

1. Reporting and evaluation

- 3.14 When execution of the loan begins, the executing agency will provide the Bank with the Project's annual operating plan (AOP) for 2000, showing the main activities planned, by component, and specific targets in accordance with the Project logical framework (Annex II-1). **The AOP must be submitted as part of the initial project report, to be presented as a condition precedent to the first loan disbursement.**
- 3.15 The PEU will provide the Bank with status reports on the Project within 60 days after the end of each half-year. In producing these reports it will take into account

the logical-framework benchmarks for activities for the six-month period in question, and targets set, and will report progress on the information campaign to be funded by other donors, the design of which must include components financed under the Project proposed here. **The executing agency will provide the Bank, at least 60 days before each calendar year-end, with the ANB Board-approved AOP for the following year.**

- 3.16 The Bank will monitor the Project's implementation by reference to the above-mentioned reports. One specific requirement is that there must be at least one evaluation of progress toward selected milestone activities. The Bank and ANB will arrange a mutually satisfactory time and approach for those evaluations. If an evaluation reveals less than satisfactory progress, corrective measures will have to be taken immediately.

2. Inspection and supervision

- 3.17 The Bank's Country Office in Bolivia will supervise the Project. Joint reviews (described above) are also planned.

3. Audit and controls

- 3.18 Throughout the life of the Project, the borrower will present the Project's audited financial statements within 120 days after each fiscal year-end. Statements must have been audited by firms of independent public accountants acceptable to the Bank. Audit costs will be defrayed with proceeds of the Bank's loan.

4. Ex post evaluation

- 3.19 Throughout the Project, the Special Monitoring Committee, the Bank, the IMF, the World Bank, and other donors will be producing reports after their respective reviews. Thus, after consulting ANB, it has been decided not to conduct an ex post evaluation of the Project. The data and indicators compiled over the course of the Project will provide inputs for an evaluation should it be decided to conduct one after the Project ends.

D. Procurement

- 3.20 A crucial factor for preparation, startup and implementation of the program will be continuity in the work of the three senior consultants (Executing Unit director, PRISMA director, PRISMA planning and development consultant) that ANB hired in 1999 using World Bank bridge funding to be able to start off Customs reform activities. As was noted above, World Bank procurement procedures were adhered to in those hires. Given these consultants' expertise in the respective areas and the fact that they are thoroughly familiar with all elements of the Customs reform, it is recommended that continuation of their work be funded by the proposed IDB loan,

given the manifest technical need for their services. This is provided for in the general policy for procurement of consulting services.

- 3.21 Following objective procedures that are accepted by the multilateral agencies currently supporting Bolivian Customs reform, ANB has selected the SIDUNEA++ system as the best option for adaptation to Bolivia's needs and circumstances. This system was developed by the United Nations Conference on Trade and Development (UNCTAD). The Bolivian authorities will execute a contract with UNCTAD for adaptation and implementation of the system in Bolivia's Customs Administration nationwide (paragraph 3.13). As an exception to the established procedure of calls for proposals for consulting services, it is recommended that UNCTAD be hired directly to install the SIDUNEA++ computer system, given that agency's technical and institutional advantages in this field. This approach is provided for in chapter GS-403 of the Procurement Manual.
- 3.22 UNCTAD offers distinct technical and institutional advantages over other agencies or firms for purposes of adapting and implementing SIDUNEA in Bolivia's Customs system. On the technical side: (i) it is the system's architect and owner and has adapted it in more than 75 countries; (ii) it knows what kind of experts are needed for in-country work and is best placed to assess needs and performance on this front; (iii) it is the only agency that can ensure that upgrades being made periodically to the system as a result of experience in other countries will be built into the system in Bolivia; and (iv) it can effectively coordinate the work of a number of individual experts and produce consolidated reports, by virtue of its solid track record in the many countries to which it has lent technical assistance. On the institutional side: (i) it can offer continuity for post-Project support, reviews and advisory support; (ii) it has the capacity to expedite the Project's execution and disbursement of funds; (iii) it has a good working relationship with the borrower; and (iv) it offers an efficient support system to ensure quality control of consulting services, by way of reports and monitoring missions.
- 3.23 Goods will be acquired following the Bank's standard procedures. An international call for proposals must be held for any consulting contract worth more than US\$200,000. International competitive bidding will be mandatory for goods costing the equivalent of US\$350,000 and up.
- 3.24 The Project will require numerous consulting and procurement contracts. To expedite the Project and the Country Office's supervision work, it is recommended that the requirement of prior consultation with the Bank apply only for the selection and hiring of consultants or procurement of goods costing US\$20,000 equivalent or more. For consulting or procurement contracts below that threshold, shopping (solicitation of at least three bids) would be required; all such contracts would be subject to ex post review.
- 3.25 The procurement table for the Project is in Annex III-1.

E. Disbursements and revolving fund

- 3.26 A revolving fund of up to 5% of the IDB loan proceeds would be set up in a special bank account, for Project disbursements. These funds must be handled separately in a bank account in the name of the IDB Project. Reports are to be submitted twice yearly, within 60 days after the end of June and December each year, on the status of the revolving fund being operated by the executing agency. All supporting documents for disbursement requests will be reviewed ex ante.

F. Retroactive financing

- 3.27 By request of the Bolivian government, it is recommended that up to US\$302,000 in retroactive financing be approved as expenditures incurred against the Bank's financing as from February 1, 2000. This includes outlays for equipment, hiring of Executing Unit and PRISMA staff, and other goods and services needed to start up the Project. It is further recommended that up to US\$75,500 be recognized against the local counterpart for expenditures incurred as from February 1, 2000. That amount includes expenditures for the management and administration component. It has been verified that Bank procedures were adhered to in procuring these goods and services.

G. Implementation period and disbursement timetable

- 3.28 The Project will be implemented over 42 months. The disbursement period will be 48 months, in accordance with the following timetable.

**Disbursement timetable
(U.S. dollars)**

Source	2000	2001	2002	2003	Total
IDB	1,250,000	1,500,000	1,500,000	750,000	5,000,000
Local counterpart	312,500	375,000	375,000	187,500	1,250,000
TOTAL	1,562,500	1,875,000	1,875,000	937,500	6,250,000

IV. VIABILITY, RISKS, AND BENEFITS OF THE PROJECT

A. The Project's institutional and financial viability and sustainability

- 4.1 The solid backing and top priority being accorded to the Bolivian Customs Reform and Modernization Program (PROMA) at the highest levels of government, and the political commitment to see it through, provide assurances of its viability and institutional sustainability. This has been evidenced in the National Integrity Program headed by the Vice President of Bolivia, with a number of cabinet ministers involved. This program marks the first time in the history of support for Customs reform that the country has resolute, coordinated technical and financial backing from the IMF, IDB, World Bank, and other donors. Other moves attesting to the government's determination to advance on the reforms are major new programs and laws to strengthen the civil service, curb corruption, and revamp the judicial system. The Special Monitoring Committee will play an important role in the Program in its work to ensure that planned actions are put into practice.
- 4.2 Bolivia's 1999 Customs Act gives its Customs Administration (ANB) autonomy and the kind of responsibility, institutional structure, and legal framework needed to carry through the reforms. With a single Executing Unit in charge of the Program's overall execution, this operation's components can be effectively executed in close coordination with components and activities slated for funding by the other organizations.
- 4.3 Lessons learned in previous operations funded by the IDB and other donors in this sector were taken into account in designing this project. The envisaged systems and components were proposed, analyzed, and coordinated with the Bolivian government and the international community and reflect the consensus achieved. Establishment and startup of an ANB Ethics Office is being proposed, to make Customs reform transparent, afford assurances of integrity, and give the agency an infrastructure for ethical conduct.
- 4.4 Resistance on the part of special interest groups and resistance to change on the part of civil servants will be minimized as government agencies advocate and steer the change to achieve good outcomes. A key focus of the institutional reform pursued in the National Integrity Program will be to foster such a culture of change. The support of public- and private-sector stakeholders will be sought through published evaluations of public institutions, public opinion surveys, public information and awareness campaigns, and resolute efforts to remedy procedures currently bogged down by red tape and revamp corrupt organizations.
- 4.5 By way of such public awareness campaigns the Program will directly help assure the sustainability of the Customs reforms. The campaign will be designed to enhance the public's understanding of the reform process, secure broad-based

support, and build a consensus among stakeholders as to the reform's aims and benefits.

- 4.6 From a financial standpoint, thus far ANB has had enough funding to pursue its plans without interruption. With the IDB funding proposed here, parallel contributions from other donors, and Bolivian government commitments of funds to ANB, PROMA will have funding as and when needed to adhere to the planned implementation timetable. Fiscal constraints will be minimized by following through with other tax administration reforms, improving efficiency of the agencies involved, and proceeding with the structural adjustments under way in the country with support from the international community.

B. Environmental and social impact

- 4.7 The Bank's Committee on Environment and Social Impact reviewed the Profile II for this operation on December 20, 1999. In the Committee's assessment, the Project would have no significant adverse effect on the environment, and would produce social benefits. Social gains would take the form of more transparent Customs operations, less corruption, higher National Treasury revenues, and hence more funds available for the country's other priority investment programs. According to the Committee's recommendation, courses organized as part of the Customs Tribunal component would address such issues as enforcement of national environmental protection laws and international conventions in that area to which Bolivia is a party, particularly those pertaining to endangered flora and fauna, historic, artistic and cultural heritage artifacts and materials, hazardous and toxic substances, and genetically modified organisms.

C. Risks

- 4.8 The chief risk in previous cooperation initiatives was political input into Customs decision-making and operations. The result was arbitrary appointments of Customs agents who had no technical training and no incentives to perform their work with integrity in a permissive environment. The commitment worked out across the political spectrum and the new Customs Act have paved the way for an end to undesirable practices, so Bolivia can build a Customs Administration staffed by qualified officers, selected by reference to objective, technical criteria and paid decent salaries. Actions taken to follow through on these expectations will be monitored throughout the program, this being a prerequisite for continued financing for the planned activities.

D. Benefits

- 4.9 The Project's principal benefits will be increased Customs revenues, giving Bolivia more money to pay for other priority investment programs; a more attractive climate for private investment when unfair competition is reduced and trade

controls are improved, and less corruption, which will enhance the country's image at home and abroad.

**BOLIVIAN CUSTOMS REFORM AND MODERNIZATION PROJECT
LOGICAL FRAMEWORK**

Objective Summary	Verifiable Indicators	Means of Verification	Assumptions
Facilitate trade and increase	<p>By the end of 2001, goods are being cleared through Customs in one hour, on average, compared to one day in late 1999.</p> <p>Customs Administration (ANB) revenues rise annually in accordance with the targets Bolivia set with the IMF relative to 1999.</p>	<p>National Systems Department statistics.</p> <p>National Systems Department statistics.</p>	<p>Users of the computerized system have a positive attitude toward it.</p> <p>Macroeconomic stability.</p> <p>The government is able to set and implement policy priorities.</p> <p>Other operations supporting institution building and Customs reform are implemented as planned.</p>
Obtain reliable ANB	<p>In 2003, at least 60% of those using ANB services are satisfied.</p>	<p>Stakeholder satisfaction surveys administered by ANB.</p>	<p>There is no resistance to change on the part of civil servants or private special interest groups, by virtue of the satisfactory implementation of the Institutional Reform Project and public information campaigns.</p> <p>The ANB Ethics Office is set up and is operational.</p> <p>Public relations/information campaigns have a positive impact on stakeholder perceptions.</p>
Foreign-trade system based on import declarations has been set in place	<p>By 2001, 100% of foreign-trade operations are based on import declarations.</p>	<p>National Systems Department statistics.</p>	<p>Equipment is purchased, documents are produced, and training delivered according to the timetables in annual operating plans.</p>

Executive Summary	Verifiable Indicators	Means of Verification	Assumptions
<p>Trade operators complete transactions honestly, aware of the legal consequences of violations.</p> <p>Business operators are satisfied with the quality of services.</p> <p>Ethics Office is established in</p>	<p>The number of ex post checks rises from 4 per month, on average, in 1999 to 8 per month on average in 2001.</p> <p>Ministry of Finance officials and the general public are satisfied with ANB services.</p> <p>By the end of 2000 the Ethics Office is set up and fully staffed.</p>	<p>National Compliance Department reports.</p> <p>Ministry of Finance reports and stakeholder satisfaction surveys.</p> <p>Reports by the IDB, ANB Executing Unit.</p>	<p>Equipment is purchased, documented, produced, and training delivered in accordance with the timetables in annual operating plans.</p> <p>Public relations/information campaign has a positive impact on stakeholder perceptions.</p> <p>Equipment is purchased, documented, produced, and training delivered in accordance with the timetables in annual operating plans.</p>
<p>Training of staff selected for Valuation Department and operations positions.</p>	<p>By the end of 2002, 100% of Valuation Department staff have been given at least one course on WTO valuation.</p> <p>By the end of 2002, the Valuation Department has given one course on WTO valuation to all operations officers.</p>	<p>Reports by the IDB, Valuation Department, ANB Executing Unit</p>	<p>Equipment is purchased, documented, produced, and training delivered in accordance with the timetables in annual operating plans.</p>
<p>Commercial operators in compliance with valuation rules.</p>	<p>By the end of 2001, the Valuation Department has given at least one course on WTO rules to business operators in capital cities.</p>	<p>Reports by the IDB, Valuation Department, ANB Executing Unit</p>	<p>Equipment is purchased, documented, produced, and training delivered in accordance with the timetables in annual operating plans.</p>
<p>Valuation Department the results it needs to perform in the framework of its mandate with WTO.</p>	<p>By the end of 2002, the Valuation Department is doing documented follow-up to its procedures and manuals.</p>	<p>Reports by the IDB, Valuation Department, ANB Executing Unit</p>	<p>Equipment is purchased, documented, produced, and training delivered in accordance with the timetables in annual operating plans.</p>

Objective Summary	Verifiable Indicators	Means of Verification	Assumptions
of Compliance ent officers in <i>ex post facto</i> import declarations.	By the end of 2002, all Compliance Department staff have been given at least one course on post-import checks. By the end of 2002, the Compliance Department has given all ANB operations officers a training course in Customs intelligence and post-import checks.	Reports by the IDB, Compliance Department, ANB Executing Unit	Equipment is purchased, document produced, and training delivered i the timetables in annual operating
Compliance Department ments it needs to perform ort checks efficiently.	By the end of 2002, the Compliance Department is doing documented follow-up to its procedures and manuals.	Reports by the IDB, Compliance Department, ANB Executing Unit	Equipment is purchased, document produced, and training delivered i the timetables in annual operating
entation of a EA++-based integrated r system.	By mid-2002, Bolivia's 41 customs- houses are operating with the SIDUNEA++ system.	Reports by the IDB, Systems Department, ANB Executing Unit	Equipment is purchased, document produced, and training delivered i the timetables in annual operating
for the system's users.	By the end of 2001, the Systems Department has given at least one training course on the system in capital cities.	Reports by the IDB, Systems Department, ANB Executing Unit	Equipment is purchased, document produced, and training delivered i the timetables in annual operating
nate Customs legislation s and magistrates, ors, attorneys, and the	By the end of 2001, the Legal Department has held at least 10 information workshops on Customs laws and formalities.	Reports by the IDB, ANB Legal Department, ANB Executing Unit	Equipment is purchased, document produced, and training delivered i the timetables in annual operating

BO-0159
BOLIVIAN CUSTOMS REFORM AND MODERNIZATION PROJECT
Procurement Table
(in U.S. dollars)

Main procurement items		Financing %		Method	Prequalification Yes/No	Publicity			
		IDB	Local			Prior GPN Yes/No	SPN		
							Half/Year	Press	
							Int.	Nat.	
<u>Computers</u>									
Average Unit Cost	2,984								
1 Lot of:	76			Local comp.					
Total Cost	226,800	100		bidding	No	No	1/2000	N Y	
<u>Printers</u>									
Average Unit Cost	1,177								
1 Lot of:	39			Local comp.					
Total Cost	45,900	100		bidding	No	No	1/2000	N Y	
<u>Scanner</u>									
Average Unit Cost	600								
1 Lot of:	1			Local comp.					
Total Cost	600	100		bidding	No	No	1/2000	N Y	
<u>Overhead projector</u>									
Average Unit Cost	1,000								
1 Lot of:	1			Local comp.					
Total Cost	1,000	100		bidding	No	No	1/2000	N Y	
<u>Projection System</u>									
Average Unit Cost	4,000								
1 Lot of:	2			Local comp.					
Total Cost	8,000	100		bidding	No	No	1/2000	N Y	
<u>Ethernet Hub, 32 ports</u>									
Average Unit Cost	1,000								
1 Lot of:	2			Local comp.					
Total Cost	2,000	100		bidding	No	No	1/2000	N Y	
<u>Ethernet Switch</u>									
Average Unit Cost	5,000								
1 Lot of:	1			Local comp.					
Total Cost	5,000	100		bidding	No	No	1/2000	N Y	
<u>Servers</u>									
Average Unit Cost	33,333								
1 Lot of:	3			Local comp.					
Total Cost	100,000	100		bidding	No	No	1/2000	N Y	
<u>UPS</u>									
Average Unit Cost	667								
1 Lot of:	30			Local comp.					
Total Cost	20,000	100		bidding	No	No	1/2000	N Y	
<u>Software</u>									
Average Unit Cost	97,150								
1 Lot of:	2			Local comp.					
Total Cost	194,300	100		bidding	No	No	1/2000	N Y	
<u>Furniture</u>									
Average Unit Cost	25,920								
1 Lot of:	1			Local comp.					
Total Cost	25,920	100		bidding	No	No	1/2000	N Y	
<u>Office equipment</u>									
Average Unit Cost	25,700								
1 Lot of:	1			Local comp.					
Total Cost	25,700	100		bidding	No	No	1/2000	N Y	
<u>Security devices</u>									
Average Unit Cost	11,500								
1 Lot of:	2			Local comp.					
Total Cost	23,000	100		bidding	No	No	1/2000	N Y	

PROPOSED RESOLUTION

BOLIVIA. LOAN No. ____/ SF-BO TO THE REPUBLICA DE BOLIVIA.
PROJECT FOR THE REFORM AND MODERNIZATION OF THE NATIONAL
CUSTOMS OF BOLIVIA

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Bolivia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Project for the Reform and Modernization of the National Customs of Bolivia. Such financing will be for the amount of up to five million dollars of the United States of America (US\$5,000,000), or its equivalent in other currencies, except that of Bolivia, which are part of the resources of the Bank's Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and to the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.