

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **URUGUAY**

### **PROGRAM TO SUPPORT URUGUAY'S NATIONAL CUSTOMS BUREAU**

**(UR-L1037)**

### **LOAN PROPOSAL**

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Electronic Links and References	
Basic socioeconomic data	<a href="http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata">http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata</a>
Status of loans in execution and loans approved	<a href="http://ops.iadb.org/approvals/pdfs/URen.pdf">http://ops.iadb.org/approvals/pdfs/URen.pdf</a>
Tentative lending program	<a href="http://opsgs1/ABSPRJ/tentativelending.ASP?S=UR&amp;L=EN">http://opsgs1/ABSPRJ/tentativelending.ASP?S=UR&amp;L=EN</a>
Annex II. Procurement Plan	<a href="http://idbdocs/WSDocs/getDocument.aspx?DOCNUM=1078443">http://idbdocs/WSDocs/getDocument.aspx?DOCNUM=1078443</a>

## ABBREVIATIONS

AWP	Annual work plan
BPS	Banco de Previsión Social [Social Insurance Bank]
DGI	Tax Directorate
DNA	National Customs Bureau
DUA	Master customs certificate
GDP	Gross domestic product
ICAS	Institutional Capacity Assessment System
INDIRA	Customs Records Data Exchange
MEF	Ministry of Economic Affairs and Finance
MERCOSUR	Southern Common Market
NAFTA	North American Free Trade Agreement
ONSC	National Civil Service Office
OR	Operating Regulations
PMU	Project Management Unit
SINTIA	Computerized International Customs Transit Information System
WCO	World Customs Organization
WTO	World Trade Organization

## PROJECT SUMMARY

### URUGUAY

### PROGRAM TO SUPPORT URUGUAY'S NATIONAL CUSTOMS BUREAU

(UR-L1037)

Financial Terms and Conditions <sup>1</sup>				
Borrower: Eastern Republic of Uruguay			Amortization period:	25 years
Guarantor: Eastern Republic of Uruguay			Grace period:	4 years
Executing agency: National Customs Bureau			Disbursement period:	4 years
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	Interest rate:	Variable
IDB (Ordinary Capital):	11.6 million	51%	Inspection and supervision fee:	0%
Local:	11.3 million	49%	Credit fee:	0.25%
Other cofinancing:	--	--	Currency:	U.S. dollars
Total:	22.9 million	100%		
Program at a Glance				
<p><b>Program objective:</b></p> <p>The program objective is to support the modernization of Uruguay's National Customs Bureau (DNA) in order to enhance the efficiency and quality of its core functions as a compliance agency and facilitator of international trade in the new environment of nimble, secure global trade. The specific objectives are: (i) to effect institutional change within the DNA, introducing functions of trade facilitation and promotion; (ii) to provide the DNA with the technological tools and infrastructure to perform its new functions as a trade facilitator; and (iii) to identify and design the various types of rules and procedures required by the customs authority in its new role.</p> <p><b>Special contractual conditions:</b></p> <p><i>Conditions precedent to the first disbursement</i> of the Bank loan proceeds (see paragraph 3.11): The DNA will submit evidence that the Project Management Unit coordinator has been appointed, as well as the coordinators for the three components. <i>Special execution conditions</i> (see paragraph 3.13). Special execution conditions: (i) The DNA will submit the annual work plan for the following year to the Bank for consideration on 30 November of each calendar year; and (ii) a monitoring and control system for program activities and outcomes will be up and running within 12 months after execution begins.</p>				
<p><b>Project consistent with country strategy:</b>      Yes <input checked="" type="checkbox"/>      No <input type="checkbox"/></p> <p><b>Project qualifies as:</b>      SEQ <input type="checkbox"/>      PTI <input type="checkbox"/>      Sector <input type="checkbox"/>      Geographic <input type="checkbox"/>      Headcount <input type="checkbox"/></p> <p><b>Verified by CESI on:</b> 9 February 2007.</p> <p><b>Procurement:</b> Program procurement and contracting will be conducted in accordance with the "Policies for the procurement of works and goods financed by the Inter-American Development Bank" (document GN-2349-7) ("Procurement Policies") and the "Policies for selection and contracting of consultants financed by the Inter-American Development Bank" (document GN-2350-7) ("Consultant Policies"), both of August 2006, and in accordance with Uruguayan law. See paragraphs 3.6, 3.7, and 3.8.</p>				

<sup>1</sup> The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendation. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1%, of the loan amount.\*

\* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## I. FRAME OF REFERENCE

### A. Socioeconomic environment

- 1.1 In the late 1990s Uruguay experienced a long recession that, in combination with a series of external shocks,<sup>1</sup> triggered in 2002 the worst financial crisis the country has faced in the last 50 years. The post-crisis period was characterized by the country's difficulties in stabilizing its public finances, with an overall fiscal deficit exceeding 4% of the GDP from 1999 to 2002. In turn, the collapse of exports to its main trading partners (Brazil and Argentina) led to trade losses of approximately 7% of GDP.<sup>2</sup>
- 1.2 Following the decline of the Uruguayan economy, policies were implemented to keep fiscal spending from rising in real terms and increase the efficiency of total current expenditures and of the tax collection system, so as to increase current public savings. In 2003, the Uruguayan government renegotiated with holders of sovereign debt and public debt instruments and restructured the banking system to make it sounder. Internationally, the government sought to reduce its trade vulnerability by making considerable progress toward trade liberalization, working to diversify exports to markets outside the region, particularly the European Union and the countries of the North American Free Trade Agreement (NAFTA).
- 1.3 The combination of these policies with a more favorable international environment, greater dynamism in the goods export sector, increasing flows of foreign direct investment, and strong initial contraction in the demand for imports put Uruguay back on a growth path in 2003 with real average growth rates of approximately 5% per year for the past four years.
- 1.4 In this period, total exports from Uruguay grew at a rate of 20% per year. This growth was accompanied by major diversification of the exports' destinations. Although MERCOSUR remains the country's principal foreign market, if one considers Uruguay's major trading partners grouped into blocks, the level of dependence on the regional market has gradually diminished. For example, while in 1998, 55% of all Uruguayan exports went to MERCOSUR countries, in 2005, they represented just 22%. Uruguayan exports to NAFTA countries have increased considerably from 7.5% of total exports in 1995 to 26.4% in 2005. The European Union's share expanded from 13% to 17% over the same period, while Asian countries have held steady at 13%.
- 1.5 One of the major challenges for the Uruguayan economy to achieve sustained growth relates largely to the country's ability to gain greater access to foreign markets, given the small size of its domestic market, and its exposure and

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<sup>1</sup> Including the devaluation of the Brazilian real, the Argentine crisis, and the outbreak of foot and mouth disease in 2001.

<sup>2</sup> Measured in constant 2002 prices. For more information, see Giordano P. and F. Quevedo, "Apertura e inserción internacional en la estrategia de desarrollo de Uruguay" [Openness and international positioning in Uruguay's development strategy], INTAL, 2006.

vulnerability to external shocks from its main trading partners. For this reason, the current government's trade policy focuses on closer regional integration with MERCOSUR and deeper, more functional economic integration with the rest of the world. This calls for a solid institutional structure to position the country in the global marketplace; the Uruguayan Customs Authority plays a leading role in that process as a facilitator of international trade.

## **B. The sector**

- 1.6 In today's international economic environment, economic integration between countries and the proliferation of free trade agreements have increased the volume of trade transactions. In such a context, those responsible for the logistics of international trade have made significant advances in production and delivery systems, bringing producers closer to consumers at a more competitive cost.<sup>3</sup>
- 1.7 In the last decade, this business climate favored the promotion of trade facilitation as a pillar of competitiveness gains as an engine of economic development, with the customs authority playing a lead role in instituting facilitation principles.<sup>4</sup> However, the events of 11 September 2001 transformed the role of customs authorities, giving them greater controls for the security and defense of border crossings. This new philosophy also translated into the revision of a number of agreements related to international transport and cargo movement.<sup>5</sup>
- 1.8 Aware that international trade promotion demands a balance between facilitation and security, the governments in time sought to study and reconcile these two considerations under the auspices of the World Customs Organization (WCO). Thus, the Framework of Standards to Secure and Facilitate Global Trade came about in 2005,<sup>6</sup> which all 169 WCO member countries<sup>7</sup> have acceded to, and agreed to implement.
- 1.9 To achieve the objectives set forth in the Framework of Standards, four core elements were established for customs work: (i) to harmonize advance electronic cargo information requirements on inbound, outbound, and transit shipments; (ii) to harmonize the risk analysis approach, processes, and criteria in customs operations; (iii) to promote cooperation between sending and receiving customs authorities and to perform nonintrusive inspections to the extent possible; and (iv) to promote the

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<sup>3</sup> Examples include multimodal transport, electronic payments, just-in-time processes, etc.

<sup>4</sup> According to the World Trade Organization (WTO), trade facilitation is the simplification and harmonization of the procedures governing international trade, such as the actions, practices, and formalities necessary to collect, submit, communicate, and process the data required for the traffic of goods.

<sup>5</sup> Container Security Initiative (CSI), Customs-Trade Partnership Against Terrorism (C-TPAT), Advance Trade Data Initiative (ATDI), etc.

<sup>6</sup> Framework of Standards to Secure and Facilitate Global Trade, (<http://www.wcoomd.org/ie/En/en.html>).

<sup>7</sup> On 9 May 2006, Uruguay signed a letter of intent to implement the WCO Framework of Standards to Secure and Facilitate Global Trade.

application of benefits in cargo handling for supply chain operators that meet the Framework's standards and employ security best practices. Implementation of this Framework of Standards also requires well-trained and motivated personnel.

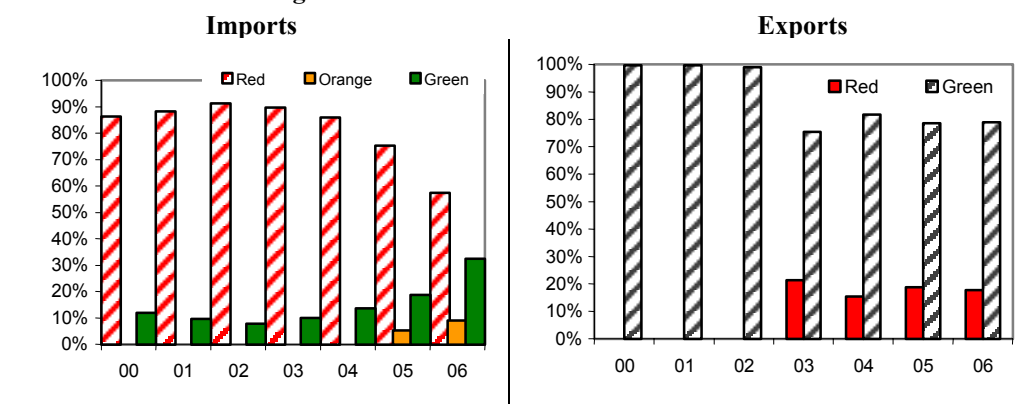
- 1.10 The National Customs Bureau (DNA) began a modernization process in the second half of the 1990s with Bank support, to adapt its structure and of procedures and technology to the facilitation requirements advocated by the WTO. But given this new context of nimble, secure *global trade*, further adjustment is required to meet this objective. Of the core elements in the Framework of Standards cited above, the DNA needs to improve items (ii), (iii), and (iv), in addition to training and credentialing its personnel. Specifically, there are a number of gaps between established standards and the DNA's current capabilities. The main such gaps are described below.
- 1.11 **Gap in processes and procedures with respect to the Framework of Standards.** The introduction of procedures at the DNA has been geared more toward compliance monitoring than considerations of trade facilitation or the new area of security. This is seen mainly in the areas of control and processing.
- 1.12 *Control.* Despite a marked downward trend since 2002, the physical inspection of imported and exported goods, as a percentage of total goods, remains high compared to the international trend (see Figure I-1).<sup>8</sup> The trend in physical control circuits or levels for export goods is 5%. Meanwhile, the trend in systems or levels for imported goods is not to exceed 15% on the red circuit, about 35% on the orange circuit, and 50% on the green circuit. In Latin America, Peru is one of the countries with the best practices in this regard. On average, between 12% and 15% of goods enter on the red circuit, between 9% and 12% enters on the green circuit and is released immediately, and the rest is subject to documentary examination.
- 1.13 In addition to being overly costly, this process has not been very effective in terms of customs management, since less than 1% of physical inspections yield positive results. Moreover, Uruguay does not apply certain international practices, particularly those related to reducing the percentage of physical valuations of goods, avoiding, for example, the valuation of goods in transit or the systematic use of domestic transit. This places a heavy burden on economic agents and the economy in general, in a context where a country needs international markets to sell its products, in order to attain a more efficient scale of production.

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<sup>8</sup> For more information, see Castilla M., *Mejores prácticas y futuro de las aduanas* [Best practices and the future of customs], 1998, IADB.



Figure I-1. Verification channels 2000-2006\*



\*As a percentage of total customs certificates (imported and exported goods). Source: DNA.

- 1.14 *Processing.* Great strides have been made in procedures over the last ten years. This means that Customs now has one of the shortest average processing times in the region; a detailed, updated process manual; and trade facilitation elements such as Administrative Order 35/06.<sup>9</sup> Yet there are still areas with room for improvement in processes and procedures that need to be addressed. To gather information relevant to the reform process, in late 2006 the DNA held consultations with customs brokers, which revealed the need for better implementation and dissemination of customs processes in the various consignment offices, as well as to computerize and harmonize certain procedures, in order to make customs processes more efficient. A need for faster customs transaction processing was also perceived, since Customs still has one of the lowest levels of customs transaction processing in the region.<sup>10</sup>
- 1.15 **Gap in human and material resources.** As mentioned above, implementation of the Framework of Standards requires qualified customs staff in terms of customs techniques and technology. Although the DNA's human resources are its main asset, they have certain limitations and shortcomings, due to the absence of civil service policies in Uruguay for many years. Two of the DNA's main human resources limitations relate to their age breakdown and training, and may hamper the performance of customs functions in the new framework.
- 1.16 Since 1995, there has been a marked downward trend in the number of DNA officials, from 1,734 in December 1995 to 1,222 in December 2005. A result of the lack of staff turnover is an exceedingly high age profile. At the end of 2005, 58% of officials were over 50 years of age. This profile reveals a staff that has some difficulties meeting the demands of a sector characterized by demanding physical tasks. With respect to the professional training of DNA officials, only 11% have any university-level education, and another 11% have completed technical or

<sup>9</sup> This order governs the processing and digital delivery of documents in the customs process.

<sup>10</sup> For example, in the case of annual import declarations processed, Uruguay averages 132 declarations per official, while Ecuador reports 258, Bolivia 267, Chile 497, and Costa Rica 559.

vocational training, while more than half do not have a high school diploma. These human resources limitations are in addition to other deficiencies, such as: (a) the lack of training programs; (b) the lack of a customs career track; (c) the lack of a sufficiently qualified, dedicated, and motivated professional staff; and (d) defects in the design of the incentive systems.

- 1.17 The government authorities are taking the following steps to develop the human resources necessary to perform the new functions and tasks required by modernization: (a) a study identifying the number, skills, profiles, and training of human resources necessary to effectively meet the new demands on the customs authority; (b) a training process to enable officials to gain the abilities and meet the performance standards required for modernization of the DNA; (c) an evaluation of officials' abilities, including those achieved in their training, in order to ensure that the new duties and responsibilities are properly covered; (d) a system for bringing new staff into the organization at various levels, for cases where key positions cannot be filled by current staff; this system will continue to operate over time so as to ensure adequate staff replenishment, based on functional needs; and (e) a special retirement option for those officials unwilling or unable to meet new customs work demands.
- 1.18 **Gap in equipment and infrastructure.** One of the core elements in implementing the Framework of Standards is access to the physical means and technology to operate in a nimble, secure fashion using nonintrusive inspection methods. Here, the DNA's material resources are lacking both in terms of building infrastructure<sup>11</sup> and equipment, particularly with respect to advanced technologies, not just to meet the required operating standards, but to perform its current functions.<sup>12</sup> Approximately 50% of the computer hardware must be replaced. A significant portion of it is obsolete, averaging over six years old, which is affecting the performance of the DNA's central servers. The customs vehicle fleet also has major deficiencies with an average vehicle age of approximately 10 years. The DNA's material resources are severely limited by a lack of investment in maintenance of existing resources, and the failure to acquire new ones.
- 1.19 **Legislative and organizational gap.** The WCO Framework of Standards rests on the twin pillars of Customs-to-Customs cooperation and Customs-to-Business partnerships. Uruguayan customs legislation dates back to the 1980s and addresses

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<sup>11</sup> With respect to building needs, the central administration building needs a general overhaul, internal reorganization of offices and laboratory, and improvements to the operations control, customs training, and events centers. The customs bureau offices require construction of integrated controls in accordance with regional commitments assumed, and investments in some of the office buildings, as well as in warehouses, covered areas for truck and vehicle inspections, guardhouses, and other structures.

<sup>12</sup> Equipment needs include scanners for trucks and their cargo, scanners for pallets or medium-sized packages, luggage scanners, metal detectors, refurbishing of the DNA central laboratory, communications equipment for each office (UHF connections for fixed and mobile units), and truck scales.

a different set of issues than faced today by the DNA.<sup>13</sup> The relevant rules of the game for customs operation, both general customs rules and the DNA's internal rules, are inadequate to meeting the challenge of modernization. Current legislation needs adjustment to foster greater cooperation and separation of interests between the customs bureau and those under its authority for the oversight and facilitation of supply chain operations. The legal framework for customs is scattered across numerous laws and other provisions, some quite old and outdated with respect to the country's own practices and comparative law, and has significant gaps, contradictions, and questionable interpretations. Specifically, there is no nimble, effective sanction mechanism to address administrative and tax-related violations. Moreover, its general criteria are geared toward business, customs, technological, and administrative realities that are now obsolete. These shortcomings give rise to uncertainty and inefficiency, and raised the cost of the customs and trade process.

- 1.20 The organization needs to be reviewed in order to adapt it to the new demands of the Framework of Standards, but the DNA's internal regulations also pose problems that are hampering the smoother operations consistent with a modern customs agency, such as: (a) difficulties in rotating staff responsibilities and duties; (b) an organizational structure that is not fully implemented, due in part to faulty design; and (c) a lack of instruments allowing for checks and balances.
- 1.21 From an structural standpoint, current rules establish that DNA control of systems and data is done by the Department of Information System Analysis and Administration, which is understaffed for that function and therefore reduced to operating for short periods of time as a help desk. This reduces the reliability of the system's services, since the DNA lacks the capacity to control and audit the reliability and integrity of the data it maintains.
- 1.22 The organizational and legislative problems listed here affect the corporate image of Customs among its users. At present, the agency's image is poor,<sup>14</sup> given the inefficiency with which it performs its various functions and the use of informal practices that should be eliminated and replaced by clear rules and laws.

### **C. The country's sector strategy**

- 1.23 A key component of the "Uruguay Productivo" program is modernization of the State and each of its areas of action. Among these transformations, one of the most important is the modernization of the National Customs Bureau, given its direct relationship to foreign trade and the need to access international markets more efficiently and competitively. Customs reform is a central pillar of the

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<sup>13</sup> For example, the DNA's organizational framework is the historical result of the following: (a) in 1926, the internal regulations were approved; in 1945, a restructuring plan was developed for the DNA, in 1964, new internal regulations were approved, which were replaced in 1975 by a system that remained in effect until the late 1990s; and in 1985, the Uruguayan Customs Code was approved. The next change occurred in 1996 and 1997 when the DNA's organizational structure was reformed, anticipating a system in line with the changes occurring in foreign trade.

<sup>14</sup> Most of the brokers surveyed said that the public image of Customs as a whole is not good.

government's plan: Article 116 of the 2005-2009 National Budget Act (Law 17930) directs the Ministry of Economic Affairs and Finance (MEF) to form a commission that will submit a proposal for the structural reform and operational enhancement of the DNA. The commission's goal is to deliver the reform proposal to the executive branch in 2007. The objectives of this reform are: (a) optimization of the compliance monitoring function of Customs; (b) modernization of the DNA; (c) enhancement of the customs authority's image; and (d) creation of a functional model compatible with the implementation of new free trade agreements.

- 1.24 Furthermore, the annex on the MEF in the federal government's Annual Report on Operations for the second session of the 46th legislature states that "In order to meet the objectives set in Law 17296 on Modernization of the National Customs Bureau, comprehensive reform should be considered, including simultaneous and coordinated changes in all aspects of the customs authority: processes and procedures, human and material resources, internal organization, the institutional regulatory framework for customs, and interaction with the other public and private operators involved in customs processes. This will require the support of the central government and cooperating international bodies: the IDB and the World Bank."<sup>15</sup>

#### **D. The Bank's sector strategy**

- 1.25 The objectives of the Bank's country strategy with Uruguay (2005-2009) include supporting the government in strengthening competitiveness and international positioning to sustain growth. The Bank is supporting efforts to increase competitiveness and private investment, based on export-oriented production bolstered by comparative advantages and the integration of modern technology to better position the country in the global marketplace without compromising security.
- 1.26 It is important to note the relationship between this operation and other Bank-financed projects aimed at making Uruguay more competitive. Operations UR-L1020 and UR-L1007<sup>16</sup> were based on diagnostic work and dialogue with the Uruguayan government and private sector, as described in the competitiveness technical note prepared in 2004. Among other things, that work highlighted the need to eliminate barriers to imports and exports caused by the high costs of customs clearance. It also points to ineffective human resources management in Uruguayan public administration. Both of these issues are addressed by this operation.

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<sup>15</sup> See the Uruguayan government's Informe y Memoria Anual de la Gestión del Gobierno Nacional [Annual Report on Operations] for the second session of the 46th legislature ([http://www.presidencia.gub.uy/\\_web/MEM\\_2006/MEF.pdf](http://www.presidencia.gub.uy/_web/MEM_2006/MEF.pdf)). See also: "Conferencia Internacional sobre Seguridad y Facilitación del Comercio" [International Conference on Security and Trade Facilitation] (<http://www.webpicking.com/notas/basc.htm>).

<sup>16</sup> The program for cluster and production chain competitiveness (UR-L1020); and programmatic competitiveness loan I (UR-L1007).

- 1.27 Also importantly, the Bank is preparing a Foreign Trade Sector Support Facility, whose objective is to help improve the country's international economic integration by strengthening public and private sector institutional capacity in the negotiation, implementation, and administration of trade policies and international economic integration.
- 1.28 With Bank financial support, the Government of Uruguay has also made progress over the last decade in strengthening the DNA, which has been beneficiary and executing agency, in whole or in part, for three operations,<sup>17</sup> so that it can fully assume its compliance monitoring role for foreign trade transactions, which in the past it had shared with other institutions. These operations initiated a modernization process to bring the agency's procedures and technology up to the standards advocated by the WTO, adapting them, in turn, to the principles and guidelines of the WCO's Revised Kyoto Convention. The resulting achievements have been recognized regionally.
- 1.29 **Prior Bank operations with the DNA.** Between 1995 and 2000, the Bank supported the DNA with two complementary operations: loans 815/OC-UR and 691/OC-UR for approximately US\$1.5 million, which focused on improving the DNA's human resources operations, organization, and management. In addition, the US\$116 million State reform sector operation, approved in 1997 (loan 996/OC-UR), supported the implementation of Articles 707 et seq. of the State Reform Act of 1996 (Law 16736) as they related to the DNA.
- 1.30 The main achievements of these prior operations were a complete reengineering of operating and compliance monitoring procedures, and their computerization using the LUCIA customs management system. These computerized procedures, based on best practices and on the WCO's Kyoto Convention on customs procedures, were instituted and are still in place, serving as benchmarks for many of the region's customs authorities.
- 1.31 Another significant achievement of these operations was the restructuring plan for the DNA within the framework of the State Reform Act, addressing both organizational and human resources issues. The Bank project developed job descriptions for the new organizational structure along with a staff evaluation process, and proposed a career track for customs technical staff that was approved by the Civil Service. It also instituted the voluntary retirement benefits established by the State Reform Act, shrinking the DNA's staff by 25%.
- 1.32 These actions were done under Decree 459 of December 1997 on restructuring of the DNA, implemented in part through corresponding internal regulations. However, these efforts were not completed by the administration that took office in 2000, so part of the structure established in the prior internal regulations, approved by Decree 758 of 1975, survived within the DNA, together with part of the new

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<sup>17</sup> Foreign trade deregulation and simplification program (691/OC-UR); Modernization of the National Customs Bureau (815/OC-UR); and State reform (996/OC-UR).

structure that had begun implementation upon entry into effect of the restructuring decree, along with an informal, unregulated structure that was the product of internal adaptations made over time and incorporated into the 1975 internal regulations.

- 1.33 Finally, a nonreimbursable technical cooperation operation (UR-0145) was approved to support fulfillment of the sector loan's disbursement conditions. These included approval of the draft internal regulations prepared with support from the prior Bank operation. The internal regulations were approved under Decree 282 of 2002, but the elements related to an administrative career track were eliminated, implementing only the organizational measures. The result was an imbalance in a modern organization served by antiquated personnel systems.
- 1.34 **Lessons learned.** Although this is the first operation to be executed under the new WCO Framework of Standards, the Bank has extensive experience in institutional strengthening of the customs agencies of its member countries.
- 1.35 Of the lessons learned from Bank operations in the customs sector,<sup>18</sup> four are relevant to this project. The first is the importance of political will to see reforms through, and of continuity in decision-making throughout execution of the projects. In the area of customs reform, there are generally a number of special interest groups that can curb the institution's modernization. In this regard, the progress of the reform depends on the ability of senior customs leadership to implement the institutional strategy over the medium and long terms, despite pressure from such groups. Secondly, for institutions like the DNA with marked weaknesses in the quantity, quality, and training of human resources, as well as shortcomings in the quantity and quality of the hardware and software to be used, it is important to establish from the outset what actions can truly transfer effective technology for the introduction of rules, regulations, and manuals of procedures. Thirdly, there must be an incentive system to drive change with both retiring personnel and those who will continue in public service, as well as incentives to promote restructuring and change in management on the initiative and leadership of senior and middle management. Lastly, it is important to have a system that produces timely, relevant information, so that actions and outcomes can be broadly disseminated, and all stakeholders involved, for consensus and transparency in the reform process.
- 1.36 The Bank's activities with the WCO include a technical cooperation project now in preparation, with the title, "Indicator-based Model for Enhanced Customs Management," whose objective is to institute an internal management model based on comparable, measurable indicators for better management of customs agencies

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<sup>18</sup> In the area of procedural improvements for control and facilitation, the process reengineering undertaken in the following customs modernization programs is worthy of note: Peru (665/OC-PE y 820/OC-PE), Bolivia (1056/SF-BO), and Nicaragua (1045/SF-NI), among others. With respect to human resources professionalization, the three projects mentioned above are notable, along with the project currently underway with the Honduran Revenue Service. In terms of equipment, information technology, and infrastructure, projects in Uruguay (996/OC-UR), Costa Rica (1030/OC-CR), and Panamá (1430/OC-PN) should be noted, along with those mentioned above for Peru, Bolivia, and Nicaragua.

in the region. Its specific objectives include: (i) to conduct studies to identify relevant indicators in the various areas of customs management; (ii) to create a management model based on the identified indicators; (iii) to identify, in conjunction with the WCO, benchmarks for comparison with other customs agencies considered models, indexed by specific regional or local conditions; and (iv) to introduce the management model and set of indicators in the management systems of beneficiary customs agencies.

- 1.37 In a memorandum of understanding, the Bank and the WCO have agreed to create an avenue for cooperation on building diagnostic capacity at the region's customs agencies, which have shown an interest. In 2006, the Bank, the WCO, and Canadian Customs organized capacity-building workshops in Latin America. With respect to the implementation of the standards set in the Framework of Standards, the Bank and the WCO have been working since late 2006 on a plan of action to guide compliance with such requirements.

**E. Program strategy**

- 1.38 As noted above, the customs reform undertaken by the Government of Uruguay is a comprehensive reform involving changes in all aspects of the customs organization, from reorganization and adaptation of internal processes and procedures, to the implementation of a new institutional legislative framework that will lock in the changes being made. This program focuses on three areas: (i) to effect institutional change within the DNA, introducing functions of trade facilitation and promotion; (ii) to provide the DNA with the technological tools and infrastructure to perform its new functions as a trade facilitator; and (iii) to identify and design the various types of rules and procedures required by the customs authority in its new role.
- 1.39 The government has demonstrated strong drive and support in each of the areas of customs reform, including its commitment to the timelines and steps necessary for its implementation. One of the main areas where the government has committed to move forward is the renewal of human resources through new hires based on an evaluation of skills and abilities, setting a higher bar in terms of dedication, training and performance, and with tighter controls and greater mobility among positions, selecting those truly able to cope with the modernization process. The plan for this particular component is to have a human resources strategy by mid-2008 and complete the review of all line staff job descriptions and the corresponding evaluation of staff capabilities by mid-2009.

**F. Coordination with other donors, government agencies, and international organizations**

- 1.40 Coordination with the World Bank is an important element of this program, since the government has asked it for technical assistance on certain activities under the human resources component. That assistance, totaling US\$750,000, is part of a

- technical assistance loan totaling US\$15.1 million.<sup>19</sup> During preparation of this program, the Bank held coordination meetings with the World Bank in order to ensure that the activities financed by both banks complement each other and are conducted effectively.
- 1.41 As part of the activities aimed at more nimble and secure trade, the Uruguayan government signed a memorandum of understanding last May with the World Business Alliance for Secure Commerce (BASC) Organization,<sup>20</sup> under which Uruguayan customs authority and private sector have committed to meet certain conditions for private companies to be considered Authorized Economic Operators (AEO) on the terms established by the WCO. With such recognition, Customs would be able to provide differentiated treatment to AEOs, thereby lowering operating costs for the companies involved in the program.
- 1.42 With respect to relationships with other government agencies, the DNA has an agreement with the Tax Directorate (DGI) for (a) real-time exchange of information on all master customs certificates (DUAs); (b) maintenance of a database of master commercial registrations (RUC); (c) maintenance of a database of taxes and/or refunds for imports, administered by the DGI but settled by Customs on the DUA and; (d) applets for the DGI to query the LUCIA system. In addition, negotiations are underway with both the DGI and Social Insurance Bank (BPS) to update existing laws and regulations for the exchange of data required by the DNA.<sup>21</sup>

## II. THE PROGRAM

### A. Objectives and description

- 2.1 The program **objective** is to support the modernization of Uruguay's National Customs Bureau (DNA) in order to enhance the efficiency and quality of its core functions as a compliance agency and facilitator of international trade in the new environment of nimble, secure *global trade*. The **specific objectives** are: (i) to effect institutional change within the DNA, introducing functions of trade facilitation and promotion; (ii) to provide the DNA with the technological tools and infrastructure to perform its new functions as a trade facilitator; and (iii) to identify

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<sup>19</sup> "Institution-building Technical Assistance Project," approved by the World Bank's Board of Executive Directors on 30 May 2007. (<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALPROTECTION/0,,contentMDK:21353064~menuPK:282642~pagePK:64020865~piPK:149114~theSitePK:282637,00.html>)

<sup>20</sup> BASC is an international business alliance that promotes secure trade in cooperation with governments and international organizations. It is business-led organization that seeks to facilitate and streamline international trade through the establishment and administration of global security standards and procedures applied to logistics in international trade.

<sup>21</sup> This includes access to information by RUC (taxpayer registration data, company name, address for business and tax purposes, lines of business, obligations, owners, historical data on changes in certain taxpayer information, information from tax returns filed on paper forms, diskettes, or electronically, and registry data on the taxpayer and branch offices).



and design the various types of rules and procedures required by the customs authority in its new role.

**B. Program structure**

- 2.2 In keeping with these proposed objectives, the program will have three components:

**Component 1. Institutional strengthening of the DNA (US\$4,541,000)**

- 2.3 This component's **objective** is to effect institutional change within the DNA, adding the functions of facilitation and promotion of international trade transactions to the traditional role it has been playing as a compliance agency, in a context of greater transparency and access to information by foreign trade users and the general public, without compromising security. It will have the following subcomponents:
- 2.4 *Subcomponent 1. Organizational structure.* This subcomponent seeks to provide the DNA with new internal regulations and an organizational structure that will enable it to perform its new functions and develop new procedures in accordance with job descriptions, while facilitating trade and internal controls in accordance with international practices. This subcomponent will finance: (i) analysis, design, and implementation of new internal regulations for the DNA; and (ii) implementation of a new organization chart based on the organizational structure.
- 2.5 *Subcomponent 2. Human resources.* This subcomponent seeks to bring the DNA's human resources into line with the new procedures established under this program. As noted in paragraph 1.40, the World Bank is financing a program with the following planned outputs: (i) review of job descriptions, a system of retirement incentives, and the design of a new compensation system with targets set for each workgroup and for the agency as a whole; and (ii) development of a training program focused on training staff to perform the new job descriptions required by Customs. Based on these activities, the program will fully finance with a counterpart contribution the costs associated with upgrading the human resources. A staff study will be done, based on a system that encourages voluntary but selective retirement based on an evaluation of skills and abilities, and scaling back incentives for long tenure (greater demands for dedication, training, and performance; more controls; and greater job mobility). The result will be a team truly up to the task of modernization of the DNA.
- 2.6 Modernization of the DNA's human resources must fit into the general policies set by the executive branch as part of its Transformation of the State and the Transformation of the State's Human Resources initiatives. The DNA will request guidance in such regard from the National Civil Service Office (ONSC) and the Planning and Budget Office (OPP).
- 2.7 *Subcomponent 3. Planning and evaluation of results.* This subcomponent seeks to identify and institute target-based planning systems with indicators to measure

- general results and results by work area within the DNA. These systems will include instruments to optimize internal management, set targets in the form of management commitments, establish monitoring parameters to measure compliance, and take any necessary corrective measures. The activities to be financed include: (i) preparation of the strategic plan, based on guidelines established by the DNA; (ii) review of internal procedures; (iii) design of management control methods and procedures; (iv) selection and adaptation of the parameters identified by the indicator management control system; (v) adaptation of procedures to the new design; (vi) implementation of new internal procedures; and (vii) monitoring of operating procedures from assessment through implementation.
- 2.8 *Subcomponent 4. Development of a foreign trade statistics system.* This subcomponent seeks to create a statistical information system that provides: (a) information on foreign trade transactions and cargo operations in the various logistical modes (this system is for external use and is intended to provide greater access to foreign trade information for operators, government institutions (including Customs), and society in general); and (b) data on the DNA's operations in terms of revenue collection, control activities, and internal administration (this system is for internal and restricted external use).
- 2.9 This subcomponent will finance: (i) design and implementation of the statistics system at the DNA, divided into foreign trade statistics (foreign trade data and cargo data) and management statistics (fiscal management, control management, and internal management); (ii) the addition of statistical information modules to the agency's Web portal; and (iii) coordination and integration of the statistical system created under the technical cooperation operation on customs management indicators being developed by the Bank.
- 2.10 *Subcomponent 5. Promotion of a new institutional image and a communications plan.* This subcomponent seeks to design and implement: (a) an internal and external communications plan that adapts the DNA's communications instruments to optimize relationships with the various agents with whom it deals; and (b) a plan to enhance the institution's image in terms of transparency and professionalism in Customs operations and performance, to serve as support for the country's trade management. The following activities will be financed: (i) design and implementation of an organization plan for an information service (in person, telephone, and electronic) on customs processes and requirements; (ii) design and implementation of a corporate/institutional image enhancement plan; (iii) implementation of the internal communications plan; (iv) implementation of the external communications plan; (v) outline of mass media content; and (vi) design and implementation of the DNA's visual image plan.
- 2.11 **Expected outcomes.** As an outcome of this component, Customs is expected not only to play a more efficient role as a revenue collection and compliance monitoring agency, but to possess the trained human resources needed to meet the demands of the modernization process and its new role, as well as an information and results-based evaluation system that enable it to streamline its activities and

operations, lowering transaction costs, projecting greater transparency and clarity as to its functions and operations to foreign trade users and the general public, providing information services for planning new lines of business, and facilitating foreign trade transactions.

**Component 2. Strengthening of the DNA's physical and mobile plant (US\$7,060,000)**

- 2.12 This component's **objective** is to provide the DNA with the equipment and infrastructure necessary to efficiently perform the new functions assigned to it as a nimble, secure, and transparent trade facilitator. This component has two subcomponents.
- 2.13 *Subcomponent 1. Strengthening of the DNA's mobile inspection equipment.* This subcomponent seeks to provide the DNA with the properly equipped fleet needed to effectively perform its oversight, monitoring, and inspection duties, for both the transit and the securing and safeguarding of goods. The outputs to be financed are: (i) the procurement and outfitting of vehicles for various types of terrain; and (ii) the procurement and outfitting of boats.
- 2.14 *Subcomponent 2. Building improvements.* This subcomponent will make improvements the DNA's existing offices and the various Customs facilities with equipment, furniture, and basic infrastructure needed for the efficient performance of their duties, as well as the safeguarding of confiscated goods. The subcomponent will finance the design and improvement and/or rehabilitation of the DNA's offices and the Customs units.
- 2.15 **Expected outcomes.** By the end of the program, the DNA is expected to have the modern equipment and facilities and advanced technology necessary to meet the challenges of the Framework of Standards, providing better service as a compliance monitoring agency and ensuring high levels of supply chain security.

**Component 3. Adaptation of rules and procedures and procurement and implementation of new technologies (US\$9,037,000)**

- 2.16 This component's **objective** is to give Customs a legal, regulatory, and procedural framework that provides certainty and security, as well as flexibility at the levels demanded by foreign trade. For this, the system must have innovative, nonintrusive technologies to control the entry, transit, and exit of goods, as well as facilitate trade. This component has two subcomponents.
- 2.17 *Subcomponent 1. Legislative reforms.* This subcomponent will design the legislative and regulatory reforms necessary bring the Customs legal framework into line with the country's policy on international trade integration. Financing will be provided for: (i) identification of the necessary legislative modifications in relation to: (a) Customs service, its authority, powers, and jurisdiction, (b) the territory over which this authority is exercised, (c) those subject to its authority, their rights, obligations, and responsibilities, (d) customs operations, and (e) customs infractions and penalties, etc.; (ii) drafting and submission of legal and

- regulatory reforms and the new Uruguayan Customs Code bill; (iii) drafting and approval of the necessary decrees, regulations, and administrative orders in the areas cited above, to govern the new procedures; and (iv) the consolidation of current standards, administrative orders, and decrees into a single document.
- 2.18 *Subcomponent 2. Updating of procedures and procurement of new technologies.* This subcomponent seeks to develop a set of operating rules and modifications to information systems and technology in order to reengineer procedures within the DNA's new operational framework. It will finance the design and implementation of new approaches and procedures within the DNA, along with the related technology, in two groups: (i) updating of operating procedures, including integration with other customs agencies and other public, private, and quasi-official institutions; and (ii) risk management procedures.
- 2.19 Operating procedures will be enhanced in the following areas: (a) cargo, transit, and passenger control; (b) warehouses and nondutiable status; (c) streamlining of electronic filing (GEX); (d) laboratory, certificate of origin; (e) identification of goods; (f) MERCOSUR integrated tariff (ARIM); (g) nonintrusive inspection systems; (h) digital processing of master customs certificates (DUA); and (i) clearance of low-value goods.
- 2.20 In terms of interaction and coordination with other agencies, better procedures will be developed for the customs records data exchange systems (INDIRA) and the Computerized International Customs Transit Information system (SINTIA).<sup>22</sup> Both systems, developed by MERCOSUR, are interconnected to some extent with the customs management systems.
- 2.21 In terms of risk management, procedures will be improved in the areas of: (a) alert management; (b) security; (c) intellectual property; (d) passengers; and (e) training.
- 2.22 A series of special procedures will be developed to audit the operating procedures, in order to determine, among other things, whether they are supported by the legal framework.
- 2.23 The Bank will also finance the procurement of nonintrusive inspection technology under the WCO Framework of Standards to Secure and Facilitate Global Trade, to which the Uruguayan customs bureau is a signatory. Some of the major items to be procured (in terms of cost) are: (i) x-ray scanners for container inspections; (ii) a video camera system for transit monitoring, its interconnection with Customs, and software for optical character recognition tracking of certificates; and (iii) mobile scales for weighing trucks. All of these technology purchases will be accompanied by legislation (rules and regulations) and procedures for their smooth integration into customs operations, as well as staff training.

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<sup>22</sup> INDIRA allows, upon request, the online exchange of data on operations processed with customs. It does not operate in real time. The system is up and running, with planned upgrades. SINTIA integrates the computerized customs systems of the member states so as to monitor and track international transit online in real time, allowing cargo to be traced from its origin to its destination.

- 2.24 **Expected outcomes.** This component is expected to give the DNA an effective legal and regulatory framework and procedures that enable it to perform in an efficient, coordinated manner within the institution, with clear, transparent standards utilizing technology suited to its trade facilitation functions, without compromising security.

### C. Cost and financing

- 2.25 The estimated total cost of the operation will be US\$22.9 million equivalent. The Bank will provide US\$11.6 million in financing from Ordinary Capital (OC). The local counterpart contribution, provided by the government, will be US\$11.3 million. The program will finance consulting services, the improvement and expansion of infrastructure and assets, training activities, the procurement of computer equipment (software and hardware), and the development of information systems. The operation's itemized budget appears in Annex II. Figure II-1 below shows the consolidated budget.

**Figure II-1. Consolidated Budget**

	<b>IDB</b>	<b>LOCAL</b>	<b>TOTAL</b>
<b>C1. Institutional strengthening of the DNA</b>	<b>831,000</b>	<b>3,710,000</b>	<b>4,541,000</b>
1.1 Organizational structure	36,100	39,000	75,100
1.2 Human resources*	-	3,460,000	3,460,000
1.3 Planning and evaluation of results	123,900	71,000	194,900
1.4 Development of a foreign trade statistics system	140,000	18,000	158,000
1.5 Promotion of institutional image and communications plan	531,000	122,000	653,000
<b>C2. Strengthening of physical and mobile plant</b>	<b>4,060,000</b>	<b>3,000,000</b>	<b>7,060,000</b>
2.1 Strengthening mobile inspection equipment	-	960,000	960,000
2.2 Building improvements	4,060,000	2,040,000	6,100,000
<b>C3. Adaptation of rules and procedures and procurement and implementation of new technologies</b>	<b>4,559,000</b>	<b>4,478,000</b>	<b>9,037,000</b>
3.1 Legislative reforms	168,000	48,000	216,000
3.2 Updating of procedures and procurement of new technologies	4,391,000	4,430,000	8,821,000
<b>Management and administration</b>	<b>490,000</b>	<b>112,000</b>	<b>602,000</b>
<b>Indirect costs</b>	<b>160,000</b>	<b>-</b>	<b>160,000</b>
Midterm evaluation	80,000	-	80,000
Final evaluation	80,000	-	80,000
<b>Contingencies</b>	<b>1,500,000</b>	<b>-</b>	<b>1,500,000</b>
Contingencies	1,500,000	-	1,500,000
<b>Program total</b>	<b>11,600,000</b>	<b>11,300,000</b>	<b>22,900,000</b>

\* Of this amount, US\$750,000 are resources from the World Bank.

### III. PROGRAM EXECUTION

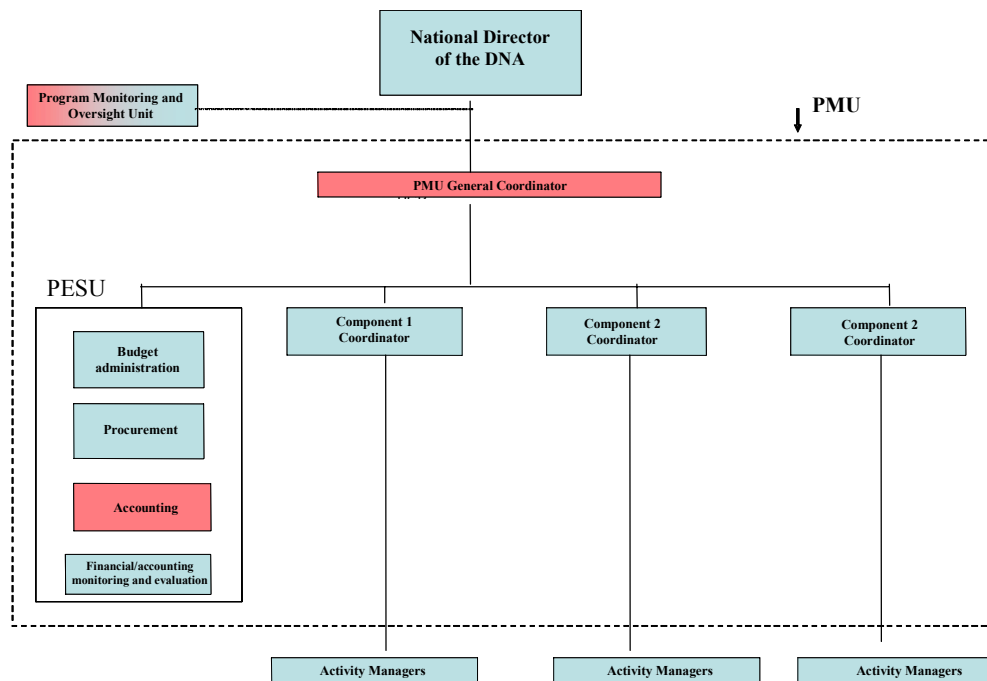
#### A. Borrower, guarantor, and executing agency

- 3.1 The borrower will be the Eastern Republic of Uruguay. The program executing agency will be the Ministry of Economic Affairs and Finance, acting through the National Customs Bureau (DNA), which is the agency responsible for verification and oversight of the various customs transactions and compliance monitoring for the entry, exit, transit, and storage of goods.

#### B. Project execution structure

- 3.2 The project will be executed through a **Project Management Unit (PMU)** headed by a **Program General Coordinator**, who will report directly to the National Director of the DNA. The National Director will be responsible for the program's strategic management, supported by a **Program Monitoring and Oversight Unit** responsible for programming, monitoring, and oversight. The Program General Coordinator will be responsible for management and supervision of all program activities. Technical coordination of the execution of major program activities will be the responsibility of three **Component Coordinators**, who will report directly to the Program General Coordinator.
- 3.3 The Component Coordinators will direct and supervise the work of the **Activity Managers**, who, in turn, will direct the work of the consultants or staff on the work teams for each program activity. For the administrative coordination of the program, the General Coordinator will have a **Project Execution Support Unit**, divided into budget administration, procurement, accounting, and financial/accounting monitoring and evaluation areas. The Project Management Unit will include both DNA and specially contracted staff. The project execution structure is illustrated in the following figure.

**Figure III-1  
Project Execution Structure**



### **C. Recognition of expenditures**

- 3.4 The Bank will retroactively recognize up to US\$2 million in expenditures chargeable against the local counterpart, incurred on or after 1 April 2007, to finance consulting services and the procurement of goods for the early months of program execution, in accordance with the Procurement Plan agreed upon with the Bank (Annex III). Expenditures will be recognized retroactively, provided that they are eligible under the program, and procedures substantially analogous to the Bank's procurement procedures in effect at the time of procurement have been followed.
- 3.5 The expenditure of US\$20,000 for contracting of the program coordinator and legal advisor will be recognized against the loan proceeds as of 1 August 2007.

### **D. Procurement**

- 3.6 Program procurement will be conducted in accordance with the "Policies for the procurement of works and goods financed by the Inter-American Development Bank" (document GN-2349-7) ("Procurement Policies") and the "Policies for selection and contracting of consultants financed by the Inter-American Development Bank" (document GN-2350-7) ("Consultant Policies"), both of August 2006, and in accordance with Uruguayan legislation.
- 3.7 International competitive bidding (ICB) will be used for the procurement of works with an estimated cost of US\$3 million or more, and goods with an estimated cost

of US\$250,000 or more. National competitive bidding (NCB) will be used for works and goods procurements with an estimated cost of US\$250,000 or more, and US\$50,000 or more, respectively. The shopping method will be used for works and goods procurements with an estimated contract amount under US\$250,000 and US\$50,000, respectively. For consulting services with an estimated contract amount under US\$200,000, the shortlist may comprise entirely national consultants.

- 3.8 Program procurement and contracting procedures will be subject to ex ante review by the Bank, in accordance with the Procurement Policies and Consultant Policies. However, the Bank may determine at its discretion, based on the findings of its reviews, that procurements valued at less than the ICB thresholds for works and goods, US\$200,000 for consulting firms, and US\$20,000 for individual consultants, will be subject to ex post review, as follows: (i) the Bank may institute ex post review, at the executing agency's request, once the executing agency has demonstrated to the Bank's satisfaction that it satisfies the necessary conditions; (ii) the Bank may revoke ex post review status at any time, in whole or in part; and (iii) depending on the circumstances, the Bank may refuse financing as a result of its ex post review findings.
- 3.9 Pursuant to chapter V of the Consultant Policies and in keeping with the principles of efficiency and economy, the executing agency may contract certain individual consultants directly, subject to the Bank's prior no objection.

#### **E. Disbursement period and conditions**

- 3.10 The execution period will be 48 months, and the disbursement period 54 months. Disbursements are planned over the course of the program as shown in Table III-2, Disbursement Schedule.

**Figure III-2  
Disbursement Schedule**

<b>Year</b>	<b>IDB</b>	<b>Counterpart</b>	<b>Total</b>
1	1,108,700.00	2,421,900.00	3,530,600.00
2	4,760,000.00	6,278,774.00	11,038,774.00
3	4,665,650.00	1,499,326.00	6,164,976.00
4	1,065,650.00	1,100,000.00	2,165,650.00
<b>Total</b>	<b>11,600,000.00</b>	<b>11,300,000.00</b>	<b>22,900,000.00</b>

- 3.11 **Revolving fund.** A revolving fund for advances of the loan proceeds will be established for program execution, opening a special bank account in the name of the program. Given the number of simultaneous contracts and payments to be made, a revolving fund of up to 10% of the loan is proposed. The executing agency will be responsible for delivering semiannual status reports to the Bank on the revolving fund within sixty (60) days after the close of each calendar six-month period.



**F. Special contractual conditions**

- 3.12 **As conditions precedent to the first disbursement of the Bank loan proceeds**, the DNA will submit evidence that the Project Management Unit coordinator has been appointed, as well as the coordinators for the three components.
- 3.13 **Maintenance.** The borrower undertakes to properly maintain the works and goods financed with the loan resources in accordance with generally accepted technical standards. During the execution period, the executing agencies will deliver a report to the Bank in the first quarter of each calendar year, beginning in the year in which the first work financed by the program is completed, containing the annual maintenance plan for works and goods financed by the program and information on operations and maintenance work done on works and equipment procured through the program financed investments.
- 3.14 **Special execution conditions.** As special execution conditions: (i) the DNA will submit the annual work plan for the following year to the Bank for consideration on 30 November of each calendar year; and (ii) a monitoring and control system for program activities and outcomes will be up and running within 12 months after execution begins.

**G. Monitoring and evaluation**

- 3.15 *Annual work plans.* The activities to be conducted with program support will be organized in annual work plans (AWP). Prior to the start of each calendar year, the AWP for the following year and an itemized breakdown of the work to be done in the first six months will be drafted and approved, as described in the foregoing paragraphs. The work plans, to be delivered each 30 November beginning in 2008, will include at least: (i) a detailed description of the activities, indicating the sources of financing, broken down for each component and output; (ii) the targets to be met and the expected outputs and outcomes, based on the goals set in the program's logical framework; (iii) the annual procurement plan, which will be revised every six months; and (iv) an executive summary of the activities conducted and targets met during the preceding period.
- 3.16 Program execution will be monitored by means of semiannual progress reports to be prepared by the Project Management Unit and delivered to the Bank on 31 May and 30 November of each year. The reports will track the meeting of commitments established in the logical framework, and reports for the second half of each calendar year will include the AWP for the following year, with the budget allocated and the activities and targets to be met for the period, as well as the respective projections through project completion.
- 3.17 Additionally, the six-monthly reports will include information on implementation of the human resources strategy pursued by the government at the DNA, specifying progress on the review and introduction of job descriptions and design of the new compensation system, hiring of new staff, and implementation of the ethics code.

- 3.18 Periodic monitoring of the program will be based on the performance indicators agreed upon between the Bank and the executing agency, as established in the Logical Framework (see Annex I). The executing agency and the Bank will meet to jointly evaluate the six-monthly progress reports, within 60 days after receipt of the report by the Bank.
- 3.19 Each year, the executing agency will submit a procurement plan to the Bank for its review and approval. It will include an itemized list of goods, works, and consulting assignments to be procured over the following 18 months, the procurement lots, sources of financing, applicable selection methods and criteria, and the method of review by the Bank. This plan will be updated for the following 18 months of execution, and submitted each time for the Bank's review and approval. It must also be updated whenever circumstances require significant modifications.
- 3.20 A midterm review of the program will be done 30 months after the contract signature date, or once 50% of program resources have been disbursed, whichever occurs first. A final evaluation will be done within 90 days after the last disbursement, to measure the degree to which the program objectives have been met. To measure the program's impact, a baseline will be set as an input for the corresponding evaluations. The midterm and final evaluations will be financed with program resources. Finally, a project completion report will be prepared three months after the operation is completed, detailing the project's outcomes and lessons learned during its execution.

#### **H. Financial statements and audits**

- 3.21 The executing agency will maintain accounting systems satisfactory to the Bank, as well as an effective, complete, and up-to-date filing system for all supporting documentation on the program's financial and accounting management. The program's annual financial statements will be delivered to the Bank within 120 days after the close of each fiscal year. Within 120 days after the program's last disbursement, the executing agency will deliver the final financial statements on program expenditures incurred with the Bank's contribution and the local counterpart contribution.
- 3.22 Audits will be performed in accordance with the Bank's terms of reference (document AF-400) and requirements (documents AF-100, AF-200, and AF-300). They will be conducted annually by the Uruguayan Official Audit Office (TCR) in accordance with Bank rules and procedures.

### **IV. VIABILITY AND RISKS**

#### **A. Institutional viability**

- 4.1 An institutional assessment of the DNA was conducted during project preparation using the Bank's Institutional Capacity Assessment System (ICAS). The ICAS assessment looked at the following systems: (i) activity and component programming system; (ii) administration organization system; (iii) personnel

administration system; (iv) goods and services administration system; (v) financial administration system; (vi) internal control system; and (vii) external control system. The assessment conducted for program execution, which included interviews, documents, and reports, established that the DNA has no significant institutional weaknesses.

- 4.2 The ICAS produced the following recommendations to enhance program execution: (i) develop Operating Regulations (OR) specifying the necessary sequence and interdependence of activities for activity programming, personnel administration, goods and services administration, financial administration, and project monitoring, including interrelationships with the DNA; (ii) prepare the project's AWP; (iii) develop formal procedures for the drafting, approval, modification, control, and monitoring of the AWP; (iv) prepare a procurement plan; and (v) prepare the initial report with complete programming for the operation. In accordance with the ICAS recommendations, the program set the following conditions precedent to the first disbursement: (i) the DNA will submit evidence that the program coordinators have been appointed, for the Bank's no objection; (ii) Operating Regulations will be prepared that specify the necessary sequence and interdependence of activities for activity programming, personnel administration, goods and services administration, financial administration, and project monitoring, including interrelationships with the DNA; (iii) the project's AWP for the first year of execution will be prepared; (iv) formal procedures will be developed for the drafting, approval, modification, control, and monitoring of the AWP; (v) a procurement plan will be prepared; and (vi) an initial report will be prepared with complete programming for the operation.

**B. Environmental and social impacts**

- 4.3 Given that the program activities focus on modernization of the public administration, no direct environmental impacts are anticipated. The Committee on Environment and Social Impact (CESI) approved the project concept document at its 9 February 2007 meeting, specifying no actions to mitigate potential environmental impacts.<sup>23</sup>
- 4.4 With respect to the customs control mechanisms now in place in the country to protect animal and plant health, it is important to note that Uruguay joined the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) on 1 July 1975, and Uruguayan legislation provides for its enforcement.
- 4.5 The activities financed by this program will have no direct environmental impact, but will have a positive influence from a social and environmental perspective, inasmuch as the project activities include: (i) coordination with other organizations involved in foreign trade transactions; (ii) the review of laws and operating procedures; (iii) the physical enhancement of customs agencies, which will improve

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<sup>23</sup> The project team agreed with the CESI to include a description of the customs control mechanisms now in place in the country to protect animal and plant health.

handling of wildlife, animals, and hazardous goods; and (iv) the inclusion of these issues in training activities.

- 4.6 This operation does not qualify as a poverty-targeted or social equity enhancing investment (PTI/SEQ), as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

**C. Benefits and beneficiaries**

- 4.7 As noted above, this program fits into the Bank's strategy for modernization of the state and competitiveness in terms of strengthening the DNA to improve the efficiency and quality of its functions as a compliance agency and facilitator of international trade. In this context, the operation's expected outcomes are: (i) to reduce the time and cost of customs processing; (ii) to shorten physical inspection times; (iii) to collect customs revenue more efficiently; (iv) to provide complete, updated, and reliable information to guide government customs and revenue collection decisions, while facilitating decision-making on trade matters by private agents.
- 4.8 The program beneficiaries will be the economic agents engaged in international trade and consumers in general, through: (i) a lower cost of customs transactions, which will have a positive impact on Uruguay's trade capacity; (ii) the establishment of a framework of updated, flexible rules to facilitate trade by favoring simpler, clearer procedures; (iii) greater automation of both customs procedures and offices, guaranteeing security and efficiency in information processing and storage; (iv) the introduction of a risk management system; and (v) improved collection of customs revenue, primarily as a result of more efficient control systems and the facilitation of international trade. Stated another way, economic benefits are expected through greater revenue collection, resulting from improved efficiency in clearance and processing times for customs operations and better control of goods through the risk analysis to be instituted at the customs bureau.
- 4.9 Customs personnel will also benefit from a clear organizational structure with new job descriptions that effectively reflect their activities and responsibilities, which, in turn, will be better suited to their skills.
- 4.10 These outcomes will be verified through verification that the targets set in the Logical Framework have been met (see Annex I). Figure IV-1 shows the primary indicators to be used for program monitoring, as well as the targets to be met.

**Figure IV-1. Primary program monitoring indicators**

Indicator		Baseline (2006)	Program target
1	Physical volume of transactions	12.303 billion tons	25% annual increase
2	Improvement in the perception of foreign trade service users	48%	80% by program end
3	Decrease in the percentage of DUAs among total imports assigned to the red circuit	60%	10%
4	Increase in the percentage of DUAs among total imports assigned to the green circuit	35%	60%
5	Increase in the percentage of positive results on physical inspections	0.5%	1%
6	Increase in the number of customs transactions per DNA official	242	20% increase
7	Increase in customs transactions in tons per customs official	10.201 billion tons	20% increase
8	Decrease in the number of administrative procedures (e.g. number of steps) for the entry and/or exit of goods	9	3
9	Increase in the number of procedures for the seizure of goods	4,237	30% increase

#### **D. Risks**

- 4.11 Much of the program's success depends on renewal of the DNA's human resources, which, in this case, depends on the political will of the Government of Uruguay to support these changes. As already noted, the government has clearly stated its support for the program by calling development of the DNA's human resources through training and specialization a high priority.<sup>24</sup> Moreover, meetings are being held with the customs union in order to communicate how this reform will take place. The strategy for the human resources component includes maximizing the potential for agreements with the union. In addition, given that the government has requested the World Bank's assistance for this component, a series of coordination meetings have been held with that institution in order to avoid duplication of activities and establish a timetable, so that the execution times of the activities financed by the World Bank and the program activities are compatible.
- 4.12 Resistance to change by some DNA staff represents another potential risk. To minimize this risk, the program includes organizational development components and activities, which, among other actions, seek to explain the nature of, and defend the need for, the organizational and functional adjustments to be made.
- 4.13 Another key aspect of customs modernization is a qualified, motivated staff with a transparent civil service career path that allows them to grow and develop professionally. This was largely constrained in the past decade by rigid civil service

<sup>24</sup> See [http://www.presidencia.gub.uy/\\_web/noticias/2006/08/2006081710.htm](http://www.presidencia.gub.uy/_web/noticias/2006/08/2006081710.htm).

regulations and the budgetary restrictions on hiring new staff. But this issue can now be addressed from another angle, because the government, along with the Bank, has initiated a civil service reform process to find flexible and applicable solutions.<sup>25</sup>

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<sup>25</sup> The objective of operation UR-L1026, recently approved by the Bank, is to achieve flexible, merit-based, coherent, and integrated management of central government human resources by instituting the necessary regulatory and institutional framework and introducing effective management systems. The specific objectives are to: (i) develop a job structure linked to a salary scale that will promote efficiency and quality in service delivery; (ii) develop and implement a human resources management model and information technology system at central government agencies for better human resource decision-making; (iii) design and implement a regulatory framework for the civil service, enabling staff to develop a career that will promote efficiency and quality in service provision; and (iv) ensure that the National Civil Service Office is capable of carrying out its crossagency responsibilities in the central government.