

AIRGRAM

DEPARTMENT OF STATE

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SAN JOSE

FROM - AID/Washington

SUBJECT - Development Planning and Administration--Customs Reform PROP

REFERENCE - 515-11-720-060.2

DATE SENT 8/14/70

1. AID/W Evaluation Panel reviewed this revised PROP on July 31, 1970. It is approved for the life of the project with the following conditions:
2. This project appears to the panel to represent a response to host government initiative. The project was to be phased out a year ago due to important changes in the host government attitude. The opportunity for significant forward progress seems good.
3. The principal problems which AID/W has with the PROP, as drafted, lie in the objective section. The overall objective of customs activities appears to be (1) rapid movement of goods and (2) rapid and increasing collection of revenues with a minimum of red tape. This appears to be what you are trying to accomplish.
4. There appear to be three levels of project activity:
 - A. The first level is the inputs: principally technicians who are advising the Customs Administration;
 - B. The second level are the institutional changes which the Customs Administration is expected to make as result of this advise. These are of two sorts: organizational changes and procedural changes;

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DRAFTED BY AMHughes:dw	OFFICE LA/OPNS	PHONE NO. 29682	DATE 8-5-70	APPROVED BY: LA/DP:JHeller
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AID AND OTHER CLEARANCES
LA/DR:WGoldman
LA/CEN:RTaylor
LA/DP:CJohnson

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- C. The third level are the real objectives of the study, that is the speed up in the flow of goods through customs and the increase in revenue which will result from the re-organization and improved procedures.
5. The ultimate test of this projects' success, therefore, should be at the highest level of project activity i.e. improved flow of goods and increased revenues, rather than at the intermediate level of organization and procedural changes, since these changes are only being made so as to increase the flow of goods and the revenue collections. It is suggested, therefore, that the Mission develop new targets for this project at the highest level. An example of such targets would be:
- A. "By 1972 the Customs Administration would be able to handle expeditiously the total volume of goods which are expected to be processed through the ports at that time. It is expected that the average goods will be cleared through customs within _____ days and no goods will remain longer than _____ days. At the present time the average time taken is _____ and some goods have remained in customs as long as _____.
- B. "Revenues from customs by 1972, should reach the level of \$ _____ per year or _____% of GNP. At the present time such revenue collections are only \$ _____ or _____% of GNP.
6. It is requested, therefore, that the Mission prepare a revision to the PiOP including such targets as herein outlined. This revision should be forwarded to AID/W no later than November 15, 1970.

ROGERS

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FROM - **USAID/SAN JOSE**

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SUBJECT - **NonCapital Project Paper
CUSTOMS REFORM**

REFERENCE -

COUNTRY: **COSTA RICA**

PROJECT: **515-11-720-060.02**

SUBMISSION DATE: **July 21, 1970**

REVISION No. **1**

PROJECT TITLE: **Development Planning and Administration - Customs Reform**

US OBLIGATION SPAN: **FY 67 THROUGH FY 72**

PHYSICAL IMPLEMENTATION SPAN: **FY 67 THROUGH FY 72**

GROSS LIFE-OF-PROJECT FINANCIAL REQUIREMENTS:

US dollars 140,240.44

US-owned local currency 15,894.74

Cooperating country cash contribution 114,000.00

Other Donor TOTALS 270,135.18

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J. Von Steins mce

OFFICE

Customs

PHONE NO.

DATE

7-21-70

APPROVED BY:

Peter M. Kreis
**Peter M. Kreis
Acting Mission Director**

AID AND OTHER CLEARANCES

P. M. Kreis

S. F. Hart

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I. Revised Summary

During the last 18 months, three significant events occurred which have increased both the performance of Costa Rican Customs and the likelihood of the successful completion of this project, albeit three years past the original termination date.

First, a national seminar was held by GOCR officials in late 1969 to discuss methods for alleviating port congestion and the processing of merchandise in the face of the ports' inability to handle increased volume of shipping. After careful deliberation, officials at the seminar issued a report recommending 19 resolutions designed to bring about both short and long-term solutions to the port and customs problems. Studies are now underway to implement the resolutions, and, as an initial measure, the GOCR has turned port control over to two provisional port authorities. In addition, the GOCR has declared the port problem a national emergency which has helped mobilize support in the Government and National Assembly for priority attention and financial backing for port and customs reform.

Second, the Director General of Customs was replaced in May, 1970 by a new and vigorous Director who has initiated sweeping administrative and operational changes in Customs, including centralization of customs headquarters and re-establishment of the Department of Supervision (see Objectives below).

Third, the need for customs reform and reorganization has been accepted by the GOCR, and includes most of the recommended actions proposed by the 1967 USAID customs survey report.

Therefore, the Mission has revised both its strategy and timetable to effectively carry out the customs assistance project. Basic to this modification is greater selectivity in assistance inputs toward accomplishment of those objectives which offer reasonable opportunities to put into effect.

II. Project Objectives

The revised specific objectives of this project are:

A. Development of improved customs warehouse and merchandise handling

The flow of merchandise through customs warehouses is a key to improvements in clearing up port congestion. Cargo unloaded more rapidly than can be handled by transit through the warehouse system has added to the port problem. Present accumulations require that steps be immediately taken to (1) implement removal and/or sale of merchandise which has been in customs custody for more than 60 days; (2) increase warehouse charges to encourage prompt clearance of importations to bonded warehouses; (3) procure

needed merchandise handling equipment, including use of palletization in loading and warehouse storage operations; and (4) reorganize customs warehouses to introduce locator inventory systems, new layout, aisles, and warehouse security improvements. In addition, new customs inspection procedures need to be initiated such as greater use of spot checking in lieu of 100% examination, and the application of percentage weighing practices. USAID has already provided a TDY specialist in determining port handling equipment and palletization needs; however, the resident advisor will continue to work with customs in the implementation phase of this program. Collaboration with the provisional port authorities (and a new national authority once established) will also be carried out to effect coordination between customs and the ports in the area of merchandise flow and storage.

B. Re-establishment of the Department of Supervision

Customs, with the advisory assistance of the USAID customs advisor, will re-establish the Department of Supervision, composed of the following divisions and responsibilities:

- (1) Investigations Division. This division will coordinate with the fiscal police (resguardo fiscal) in the prevention of illegal entry of merchandise. It will also be responsible for monitoring examinations made in the interior; investigate suspected acts of fraudulent invoicing and misuse of duty exoneration privileges; control of temporary car imports; make personnel investigations; and conduct operations aimed at limiting contraband activities.
- (2) Audit Division. This division will carry out audits of customshouses and warehouse installations and undertake special inspections to see that procedures set forth by RECAUCA are being fulfilled. It will also be charged with the task of reviewing uniformity of procedures by customs facilities.
- (3) Security Division. This division will be responsible for safeguarding merchandise from the time it arrives within port limits until released from customs custody. This will include observation of vessels before and after they are secured to the dock; patrol of off-shore sides of vessels during unloading operations; prevention of unnecessary damage to cargo in loading process; and introduction of procedures to eliminate theft of merchandise in customs custody.

C. Improve operations of the Department of Tariff Classification and Control

This Department must improve operations to furnish to field customshouses and the Directorate information on proper classification and value of merchandise and the review of processed customs entries.

Of particular importance is the establishment of two distinct sections. One, a studies section, shall be responsible for constructing classification and value files; operation of a testing laboratory; dissemination of rulings, procedures, and uniform application of customs entry procedures; and training programs to upgrade appraisement personnel. The second, a control section, will review customs entries and procedures for readjustment of charges where errors are discovered. It will also institute an improved system for the liquidation of customs entries, utilizing where possible modern ADP systems to accumulate required data and to accelerate calculations and verifications. Toward this end, the Mission plans to provide a control and liquidation specialist for up to 3 months in the design of an improved liquidation system.

III. Strategy

The Mission plans to provide the services of one resident customs advisor for 24 more months to complete the objectives of this project as described above. Where appropriate, TDY specialists will be provided. Appropriate modifications of assistance under this project will enable the Mission to better utilize the services of the customs advisor and limited short-term assistance. In the past, customs and concerned GOCR agencies have requested the advisor's services for a wide range of activities, thereby diluting the affect of his assistance. It is the Mission's determination that greater selectivity in the areas of advisory services (a) provides a greater impact on the development of GOCR Customs, (b) is more consistent with those priority programs which can reasonably be accomplished in a 2-year time frame, and (c) reflects more accurately the type and extent of assistance which can make both meaningful short and long-term contributions to improving GOCR Customs.

IV. Course of Action

During the remaining 24 months of this project, the Mission will provide the services of a resident customs advisor and selected TDY specialists, probably in the fields of customs entry liquidation, audit, and follow-up port handling equipment. The advisor will work closely with the new Director General of Customs as well as with officials of the provisional port authorities. He will encourage improved GOCR Customs long-term planning and budgeting, and will advise Customs on implementing those resolutions, resulting from the national seminar, which are consistent with the priority objectives of this project.

For the final year of this project, the advisor will concentrate his efforts on a review of introduced procedures to ensure that warehouse, liquidation, information, and supervisory systems are properly functioning.

NOTE: In view of the proposed phase-out of this project at the end of FY' 72, it is hoped that future year requests for specialized assistance from GOCR customs can be responded to by ROCAP or other external assistance institutions.

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FROM - USAID/SAN JOSE

SUBJECT - NonCapital Project Paper
CUSTOMS REFORM

REFERENCE -

COUNTRY: COSTA RICA PROJECT: 515-11-720-060.02

SUBMISSION DATE: Oct. 31, 1968 ORIGINAL X

PROJECT TITLE: Development Planning and Administration
Customs Reform

US OBLIGATION SPAN: FY 67 THROUGH FY 69

PHYSICAL IMPLEMENTATION SPAN: FY 67 THROUGH FY 69

GROSS LIFE-OF-PROJECT FINANCIAL REQUIREMENTS:

US dollars	\$ 77,000
US-owned local currency	
Cooperating country cash contribution	7,520
Other Donor	73,684

TOTALS \$158,204

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DRAFTED BY Von Stein/Smolinas AID AND OTHER CLEARANCES W. Krauss	OFFICE Program 4	PHONE NO.	DATE 10/31/68	APPROVED BY: E. B. Black, Mission Director
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A. GENERAL DESCRIPTION

The Costa Rican Government has over the years encountered great difficulties in raising sufficient revenues to support the wide range of social services offered her citizens. In the past, customs collection provided well over 50% of the cost of government services, but as a result of Common Market growth and the increased exoneration of duties and taxes on importations, destined for economic and social development, this percentage has fallen to 32.2% in 1967. This trend makes it increasingly important to collect the maximum amount of the potential customs revenue. Moreover, as the Central American Common Market (CACM) continues to develop, it is imperative that Costa Rica have a customs organization capable of promptly implementing and administering the uniform customs laws and regulations being promulgated by the SIECA

The broad goals of the project are therefore:

1. In the field of government
 - a. To realize the maximum revenue collectible under existing tariffs and economic influences.
 - b. To bring the organization, procedures and regulations of the GOCE Customs Service into accord with CAUCA and RECAUCA; and to establish efficient techniques in those customs operations not specifically prescribed by the RECAUCA.
 - c. To cooperate with SIECA and ICAP in the continuing development of the Common Market, the Customs Union, and the Uniform Tariff called for by the General Treaty for Central American Economic Integration.
 - d. To set an example of honest, efficient, dedicated public administration, not only for Costa Rica but for all of Central America.
2. In the field of private enterprise.
 - a. To encourage competitive enterprise by reducing the amount of merchandise entering the country illegally or without the payment of proper duty, and thus enhancing the opportunity for honest trade.
 - b. To facilitate commercial and industrial development through intelligent application of protective legislation and the expeditious clearance of imported products and materials.

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The minimum results for continued US participation should be continued refinement and development of the 11 sub-projects contained in the original ProAg of June 30, 1967, which are presently in various stages of progress. These sub-projects are discussed below.

B. SETTING

For many years, the GOCR Customs Service was characterized by inept administration, inefficient methods, and malfeasance in office. Numerous surveys and recommendations had been made by both domestic and foreign technicians without any of the suggested changes or improvements being put into effect. On July 25, 1966 President José Joaquín Trejos, in a sincere and determined effort to remedy the situation and to make possible the implementation of the Regulations for the Central American Customs Code (PECAUCA), instituted a Customs Reform Program and gave it strong executive backing. USAID technical assistance was requested to strengthen the effort. A customs advisor from the US Bureau of Customs made a 3-months TDY feasibility study in the summer of 1967 and based on his report, the USAID Customs Project in Costa Rica was begun in August 1, 1967.

On December 15, 1967, the RECAUCA was placed into effect in Costa Rica by Presidential Decree. Practically all of the procedural and organizational changes called for by the sub-projects listed in the ProAg can be legally effected under these regulations. For this reason, the legislative problems of reform program are relatively few. In contrast, the economic difficulties are many. The Customs Service, which has always been the major source of government income, has always received a disproportionately small share of the national budget. Current attempts to reduce the national deficit could possibly nullify some of the provisional commitments which the Ministry of Hacienda has made in connection with the newly formed Investigations Division and the projected Customs Enforcement units.

The regional customs plans and ambitions of SIFCA, ICAP, and ECAP can only advance as the customs services of the individual Central American countries have the know-how and the initiative to place their recommendations and regulations into effect. This elemental fact, plus the need to increase the government revenue, is clearly recognized in the country development plan, and the sector analysis of the Program Memorandum. The success of in-country customs projects is the key to the realization of these ambitions.

C. STRATEGY

The general strategy that is being followed to achieve the goals advanced above is for the US to offer selected aid including a customs advisor from the Office of Foreign Customs Assistance of the US Bureau of Customs who will be able not only to provide technical

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assistance in specialized areas, but will also act as a catalyst in obtaining needed improvements.] The advisor is located in the Dirección General and has managed to establish a good working relationship with a group of young men who have been placed in strategic posts and form the spearhead of the program. The GOCR has done an excellent job of meeting the commitments assigned to it in the 11 sub-projects of the ProAg. The RECAUCA regulations have been placed in effect and the customs service reorganized to comply with RECAUCA regulations. \$100,000 is in the 1969 GOCR budget for repairs to customs installations, including work on the Aduana Principal that will enable the Dirección General to get out of its present, rented quarters and consolidate its operations with the main customhouse in San José, the Aduana Principal. \$380,000 have been spent on repairs and improvements to the customhouse in Puntarenas and it is now an excellent installation. The baggage examination installation at El Coco International Airport has been completely redesigned and modern, mechanized conveyors and baggage examination counters are speeding travelers through with ease and alacrity. The international airlines operating at El Coco have agreed to finance a \$94,000 addition to the cargo warehouse, the cost to be amortized over a 10-year period. Ten electric calculators have been purchased for use in the Dirección General. The GOCR contribution to the customs share of the GOCR/AID Trust Fund for FY69 is \$ 50,000.

Success in the customs project will have a beneficial effect on many other development efforts in the country. It will strengthen the Central American Integration Movement by providing the technical competence necessary to carry out the many detailed regulations under the RECAUCA.

USAID projects will be improved as the handling of needed imported equipment will be expedited. Too often in the past, items which had been brought to Costa Rica to be used in social or economic improvement programs, became bogged down in customs warehouses delaying project implementation. Finally, one of the biggest development linkages relates to the relationship between an improved customs service and an increase in government revenues. The Mission in Costa Rica considers fiscal stabilization a high priority and the customs project complements such projects as the Mission-assisted tax administration project.

D. PLANNED TARGETS AND RESULTS

At the termination of this project in the 69-70 period, the following results will have been obtained:

1. The office of the Direction General will be moved to the Aduana Principal (Main Customhouse in San José) and a radio communications network will be in operation which will connect this headquarters to the other major customs installations throughout the country.

2. The Direction General will be reorganized in accordance with the RECAUCA.

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Agency service and US Treasury Law Enforcement School for five customs investigators. To assure that this training is being fully utilized, the GOCR is taking steps to purchase three vehicles for the use of the Investigative Force, and USAID will purchase \$1,468 worth of small arms and basic law enforcement equipment.

To improve the warehouses and customhouse in Puntarenas, the principal Pacific port, the GOCR has to date spent \$380,000. To assist this effort, the GOCR has purchased \$50,000 worth of new office equipment and USAID is supplying \$5,000 worth of office and technical equipment. Along the same lines, to improve the warehouses at Aduana Principal, the employees themselves took up a collection for paint and painted the warehouse in their own spare time. This attitude of self help among the customs service employees can also be seen in the case of the training courses dealing with the provisions of the RECAUCA which were attended by customs employees, brokers, importers, after normal working hours.

BOONSTRA

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