1. Project Data:

<table>
<thead>
<tr>
<th>Country:</th>
<th>Mexico</th>
</tr>
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<tbody>
<tr>
<td>Project ID:</td>
<td>P114271</td>
</tr>
<tr>
<td>Project Name:</td>
<td>Customs Institutional Strengthening</td>
</tr>
<tr>
<td>Project Costs (US$M):</td>
<td>54.87</td>
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<td>Loan/Credit (US$M):</td>
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<td>Sector Board:</td>
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<tr>
<td>Cofinancing (US$M):</td>
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</tr>
<tr>
<td>Cofinanciers:</td>
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<td>Board Approval Date:</td>
<td>04/21/2009</td>
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<td>Closing Date:</td>
<td>09/30/2014 05/03/2012</td>
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<td>Sector(s):</td>
<td>Central government administration (80%); Public administration- Industry and trade (20%)</td>
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<tr>
<td>Theme(s):</td>
<td>Trade facilitation and market access (60% - P); Tax policy and administration (20%); Administrative and civil service reform (20%)</td>
</tr>
</tbody>
</table>

2. Project Objectives and Components:

a. Objectives:

Except for minor differences in wording, objectives are stated identically in the PAD (loan summary, Section II.B, and Annex 3), and the Loan Agreement. The version from the PAD, Section II.B will be used for this review:

The project's objective is to improve the efficiency of Customs processes thus contributing to improving Mexico's competitiveness and facilitating trade with foreign parties.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components:

The project was to assist with the implementation of a major restructuring of the customs service according to a plan put forward by the Mexican tax authorities (Servicio de Administración Tributaria, SAT), under whose aegis customs operates. The project incorporated the following components:

1. Institutional Redesign: Support comprehensive redesign of the legal, organizational, regulatory and operational structures of the customs service, in order to simplify main functions, improve efficiency and effectiveness, establish mechanisms for monitoring and quality control, strengthen management, and improve service delivery.

2. Human Capital: Develop HR plan to increase professionalism and capabilities of managers and staff through better HR and career planning, enhanced training, more effective utilization of staff abilities, performance
evaluation, and development of a results oriented and ethical culture.

(3) Change Management: Improve communication to internal and external stakeholders to facilitate understanding and engagement with the reform process.

(4) Project Administration and Management: Coordinate efforts to implement the project, and provide technical and organizational support.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Board approval was given on April 21, 2009. The project initially proposed an IBRD loan of $10.02 million together with $44.85 million of Government financing for a total expenditure of $54.87 million. In September 2010, the authorities requested a restructuring which would have reduced its contribution to $24 million while leaving the IBRD financing unchanged. The project was cancelled in May 2012 after having disbursed only the front-end fee of $.03 million.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Foreign trade has been an important and growing part of the Mexican economy, however poor logistics and high transactions costs impede the country’s competitiveness, not least a slow and inefficient customs service. The SAT had proposed a major reform of customs in its “Strategic Institutional Development Plan 2007-12,” and sought to avail the Bank’s extensive international experience in the area for this purpose (see PAD, pp.2, 5,9).

From the Bank’s standpoint, the Country Partnership Strategy (FY08-FY13) proposed a flexible strategy of on-demand advisory services and technical assistance, according to which almost anything would be highly relevant. At the same time, no such project as this one was anticipated. The CPS did not emphasize trade facilitation or customs, despite the claim in the PAD that, “strengthening of customs is specifically noted as an important element required to improve the competitiveness of the Mexican economy in the Country Partnership Strategy (CPS) for FY08-FY13.” (p. 9) Though institutional development was a strategic component of the CPS, the focus was more on governance, budget management and information systems than the sort of process re-engineering envisaged here. However, the Bank had previously engaged with SAT on institutional reform and trade work had been a major element in the portfolio under the previous CPS. Accordingly, the objectives can be considered substantially relevant to the Bank’s program.

Relevance: Substantial

b. Relevance of Design:

The PAD gives little insight into the specific problems of the customs service and how to address them. Rather, the presentation is largely generic and process oriented. For instance, the first component, Institutional Redesign, "...seeks to correct the structural impediments to increasing the efficiency...through a redefinition and redesign of the services and processes..." (PAD, p. 10). Five specific subcomponents are identified, but we learn only that they will redesign key processes, seek to build consensus through seminars and workshops, bring to bear international best practices, begin implementation with pilots that can be replicated, and so on. Even here, little attention was paid to how the Bank would contribute to these activities.

The Bank had some limited knowledge of the customs service through previous work, and a more detailed diagnostic may well have been put forward in the SAT’s “Institutional Development Plan” and the business plan of the customs service entitled, “Customs Modernization Plan 2007-2012.” Since it was envisaged that SAT would lead the project with the Bank in a supporting role, this level of detail may have appeared adequate. However, elaborating the reforms and especially the Bank’s role might have facilitated implementation and ensured stakeholders knew what to expect.

Results framework: The results framework comprised three Project Outcome Indicators plausibly related to the
project’s objectives (pertaining to worker productivity, clearance processing time, and client perceptions), though the PAD hints that these may not be final but rather may, "...be refined as the project identifies and implements more precise indicators." (p. 10) Except for clearance processing time, no baseline data or targets were available for the indicators at effectiveness or even by the time of cancellation, nor was any plan put forward to design and conduct a survey of client perceptions. Intermediate Outcome Indicators comprised specific project outputs such as numbers of processes redesigned, or job descriptions prepared.

Relevance of design: Modest

4. Achievement of Objectives (Efficacy):

5. Efficiency:

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

<table>
<thead>
<tr>
<th>Rate Available?</th>
<th>Point Value</th>
<th>Coverage/Scope*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal</td>
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<td>%</td>
</tr>
<tr>
<td>ICR estimate</td>
<td>%</td>
<td>%</td>
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</table>

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

a. Outcome Rating: Not Rated

7. Rationale for Risk to Development Outcome Rating:

a. Risk to Development Outcome Rating: Non-evaluable

8. Assessment of Bank Performance:

a. Quality at entry:

The project was initiated in response to a client request without an adequate understanding of what the project needed to accomplish, what obstacles would have to be overcome, and what value the Bank would add beyond lending credibility and a knowledge of international best practice that could have been delivered as AAA. An earlier and successful collaboration on SAT’s own institutional reform was envisaged as a model for the project, but without ascertaining that the experience would transfer. A more thorough preparation could have clarified the understanding of the Bank’s role and secured a better outcome.

Quality-at-Entry Rating: Moderately Unsatisfactory

b. Quality of supervision:

Regular supervision missions were carried out, but the NCO notes that ISR’s could have, "been more candid and detailed" and the Bank may have misperceived the Government’s evolving views about the project. In addition, the Bank was slow in selecting consultants and supporting the request for restructuring.
9. Assessment of Borrower Performance:

a. Government Performance:

Although the Government appeared committed to the project during preparation and appraisal, subsequently interest waned, in part due to delays and budget constraints. Though effectiveness conditions were satisfied soon after Board approval in April, 2009, the Government delayed signing for 11 months until March 2010, then six months later (September, 2010) formally requested a restructuring to reduce its contribution by more than half and eventually decided to cancel the project when it became clear it could not finish before the end of the presidential term. Missing baseline data for results indicators were never provided since it was envisaged these would pertain to the start of project activities which never occurred.

Government Performance Rating: Moderately Unsatisfactory

b. Implementing Agency Performance:

Harmonizing and coordinating the implementation on the Government's side contributed to delays and bureaucratic requirements. In addition to the SAT, the project involved the customs administration (Administracion General de Aduanas, AGA), the Public Administration Service (Secretaria de Funcion Publica, SFP), National Financing Agent (Nacional Financiera, NAFIN) and the Finance and Public Credit Secretariat (Secretaria de Hacienda y Credito Public, SHCP).

Implementing Agency Performance Rating: Moderately Unsatisfactory

Overall Borrower Performance Rating: Moderately Unsatisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

The results framework was adequate, except for the lack of baseline data.

b. M&E Implementation:

Regular supervision missions took place, however the NCO is critical of the quality of ISRs and Bank management may not have been adequately informed of the project’s status.

c. M&E Utilization:

Minimal

M&E Quality Rating: Negligible

11. Other Issues

a. Safeguards:
b. Fiduciary Compliance:

c. Unintended Impacts (positive or negative):

d. Other:

<table>
<thead>
<tr>
<th></th>
<th>ICR</th>
<th>IEG Review</th>
<th>Reason for Disagreement /Comments</th>
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<tbody>
<tr>
<td>Outcome:</td>
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<td>Risk to Development Outcome:</td>
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<td>Bank Performance:</td>
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<tr>
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**NOTES:**
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The “Reason for Disagreement/Comments” column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

The project might have been better structured as fee-for-service AAA instead of a TA loan. The Bank’s eventual contribution under the project (which the Government appreciated), could have been delivered as AAA (see NCO, par. 12) with much less of an administrative burden on the client, while the Bank would have avoided the risk for a project where its role was unclear.

14. Assessment Recommended?  
[ ] Yes  [ ] No

15. Comments on Quality of ICR:

The NCO provides a useful description and chronology of the project, but doesn’t explain why the Government seemed to lose interest. The Government’s version of events was attached, but not translated into English.

**Quality of ICR Rating:** Satisfactory