

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CHILE

PUBLIC MANAGEMENT AND CITIZEN SERVICES IMPROVEMENT PROGRAM

(CH-L1085)

LOAN PROPOSAL

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REQUIRED <ol style="list-style-type: none"> 1. Program execution plan (PEP) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38956606 2. Monitoring and evaluation plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38964954 3. Full procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38961311 OPTIONAL <ol style="list-style-type: none"> 1. Economic analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38977562 2. Itemized budget http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38956668 3. Program vertical logic http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38962008 4. Summary of outcome indicators and intermediate outcomes of the program's project sample http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38956738 5. Tentative list of entities benefiting from the program http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38956766 6. Diagnostic document A http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38956831 7. Diagnostic document B http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38961430 8. Management capacities diagnostic methodology http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38961230 9. Methodology for the design of improvement and implementation plans http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38961472 10. Project sample http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38961345 11. Map of Executive Branch and services http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38956953 12. Evidence on institutional strengthening and effectiveness enhancement programs http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38962174 13. Breakdown of Component III activities http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39028684 14. Safeguard Screening Form http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38977629

ABBREVIATIONS

CONADI	Corporación Nacional de Desarrollo Indígena [National Indigenous Development Corporation]
DEPRODE	Departamento de Protección de Derechos [Department for the Protection of Rights]
DIPRES	Dirección de Presupuestos [Budget Directorate]
DRSJ	Departamento de Reinserción Social Juvenil [Youth Social Reintegration Department]
ECG	Evaluación Comprehensiva del Gasto [Comprehensive spending review]
ENDC	Encuesta Nacional de Derechos Ciudadanos [National Survey of Citizens' Rights]
EP	Evaluación de programa [Program evaluation]
ICAGE	Índice de Capacidad de Gestión [Management capacity index]
LIBOR	London Interbank Offered Rate
OECD	Organization for Economic Cooperation and Development
PCU	Program coordination unit
PEP	Program execution plan
PMG	Programa de Mejora de Gestión [Management Improvement Program]
SSH	Subsecretaría de Hacienda [Subsecretariat of Finance]
WAL	Weighted average life

PROJECT SUMMARY
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Financial Terms and Conditions				
Borrower: Republic of Chile Executing agency: Ministry of Finance, through the Subsecretariat of Finance (SSH)			Flexible Financing Facility*	
			Amortization period:	15 years
			Weighted average life (WAL):	10.75 years
			Disbursement period:	6 years
			Grace period:	6.5 years
Source	Amount (US\$)	%	Inspection and supervision fee:	**
IDB (Ordinary Capital)	48,000,000	50	Interest rate:	LIBOR-based
Local	48,000,000	50	Credit fee:	**
Total	96,000,000	100	Approval currency:	U.S. Dollars from the Ordinary Capital
Project at a glance				
Objective: The program's general objective is to help increase citizens' satisfaction with the services they receive from the State. The specific objective is to improve the effectiveness and efficiency of the entities (governing bodies and service providers) supplying services to citizens, by building their management capacities.				
Special contractual conditions precedent to the first disbursement: (i) the hiring of the program coordinator (see paragraph 3.2); and (ii) approval of the Program Operating Manual by the executing agency, with the prior no objection of the Bank (see paragraph 3.4). Special execution conditions: None.				
Exceptions to Bank policies: N/A.				
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []				

(*) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, and currency and interest rate conversions, subject in all cases to the final amortization date and the original WAL. When considering such requests, the Bank will take market conditions into account, along with and operational and risk management considerations.

(**) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Background.** Services constitute a fundamental link between the State and its citizens, and have an impact on government legitimacy and citizens' satisfaction with public policy. The Chilean State offers a broad range of services.¹ The regulatory framework for the Executive Branch distinguishes governing roles (central or sector planning, regulation, design, monitoring and evaluation) from those linked to the delivery of goods and services (oversight and provision). Thus, excluding areas of policy management and defense, a total of 25 ministerial subsecretariats carry out governing functions and 112 agencies (services, directorates, funds, institutes, etc.) perform delivery tasks. Although the law allows for exceptions, this distinction is clearly the predominant pattern. According to the 2013 Budget Law, delivery tasks account for 72.08% of expenditure, while sector or central governance accounts for 27.92%. The largest concentrations of resources are found in social (54.19%) and economic services (28.29%). Services are primarily transactional or nontransactional² and also consist of benefits.
- 1.2 Since the 1990s the government has made a sustained effort to improve the quality of governance and the delivery of services to citizens.³ As a result, Chile is a regional leader in public management effectiveness and service delivery, although it has yet to reach the standards of excellence of the Organization for Economic Cooperation and Development (OECD) countries.⁴
- 1.3 Citizens' assessment of the quality of the services they receive varies from average to good. In 2013, the National Survey of Citizens' Rights (ENDC)⁵ found that users of the agencies responsible for services mostly gave them a good score on a scale of one to seven (five out of seven; Figure 1). Although these figures are higher than in 2011, the headline evaluations have deteriorated (six and seven points), and there

¹ Services are understood to mean a set of actions undertaken by Executive Branch agencies to supply intangible goods or guarantee the exercise of a right enshrined in the Constitution or laws. This document limits itself to the Executive Branch agencies responsible for services delivered by the Executive Branch centrally, as these are the agencies the Government of Chile's request focuses on.

² The former refer to a transaction between the citizen and the State, i.e., tangible, structured products (records, certificates, birth certificates, passports, licenses, permits, etc.) that the State provides citizens in exchange for documentation, formalities or, in some cases, payment. Nontransactional services are core activities designed to raise users' welfare that are offered in person, and without an intermediate transaction (education, health, security, etc.)

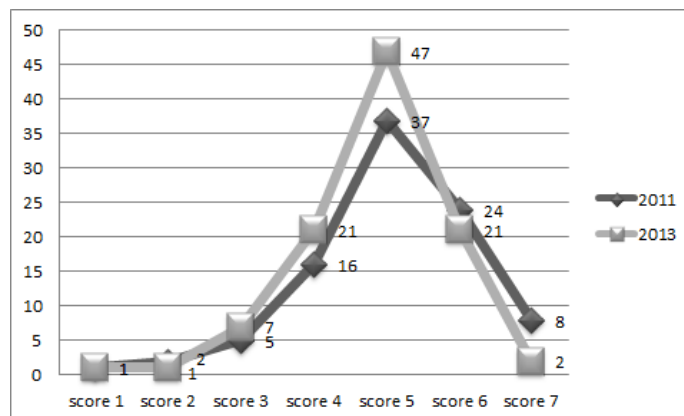
³ Among the most important milestones are the Modernization of the State Program in the 1990s, the Management Improvement Program and, more recently, the *Chile Atiende* platform.

⁴ Thus, for example, considering the Worldwide Governance Indicators 2012 and indicators of the perception of efficiency in the provision of public goods and services (*World Economic Forum*, 2014), Chile is in 2nd and 1st place (out of 26 countries), respectively. However, in relation to other OECD countries it ranks 20th and 5th (out of 34).

⁵ Source: [National Survey of Citizens' Rights 2011 and 2013](#) (ENDC). The survey assesses 19 service providing agencies, of which 15 are at the central government level. Due to the scope of the proposed program these are the ones considered in this analysis. See [optional electronic link #6](#) Section 1.

has been a slight rise in the lowest scores (three and four points). Of the 15 entities responsible for services referenced in the ENDC, only five improved in terms of citizens' evaluation, with two remaining stable and nine worsening. This reveals that there is a disparity between satisfaction with services and the risk of a progressive deterioration of top quality services.

Figure 1. General Assessment of Public Services (% surveyed)



Source: ENDC.

- 1.4 The new administration (2014-2017) has resolved to raise the quality of services as part of its agenda of major structural reforms. To accomplish this it has requested support from the Bank.
- 1.5 **Core challenge.** Considering the level of citizens' satisfaction with services, the government is facing the challenge of improving the effectiveness⁶ and efficiency⁷ of the service providers obtaining low or medium satisfaction scores, and avoiding any deterioration of the levels achieved by top quality entities. The challenge and its causes are examined below. The evidence that will be used is drawn from two sources. The first comprises 11 comprehensive spending reviews (ECGs) and 39 program evaluations (EPs),⁸ carried out by the Budget Directorate (DIPRES) between 2008 and 2013 on entities responsible for services. The second is a diagnostic assessment of six governance or service delivery entities that are due to

⁶ Effectiveness is understood to mean that the planned results are achieved through the institutional activity. It therefore relates institutional achievements with the outcome targets established in the institution's mission framework.

⁷ Efficiency is understood to mean that the results of institutional management are achieved using the fewest resources possible. These resources may be internal to the institution (inputs used to produce the results) or external (time devoted by the public to receive a service, fees paid, etc.)

⁸ The comprehensive spending reviews (ECGs) and program evaluations (EPs) assess public policies and programs considering institutional aspects and their effectiveness, efficiency, and economy in the use of resources. Given that the government's request for support focuses on improving governance and service delivery, only those relating to entities associated with services have been considered. [Optional electronic link #6](#) shows the data analysis.

be program beneficiaries, conducted between June and July 2014.⁹ Effectiveness and efficiency indicators were taken and an instrument applied to diagnose and dimension the weaknesses in management capacity.¹⁰ This set is representative of the entities in which the program will intervene. Data from other sources will be used on an ad hoc basis.

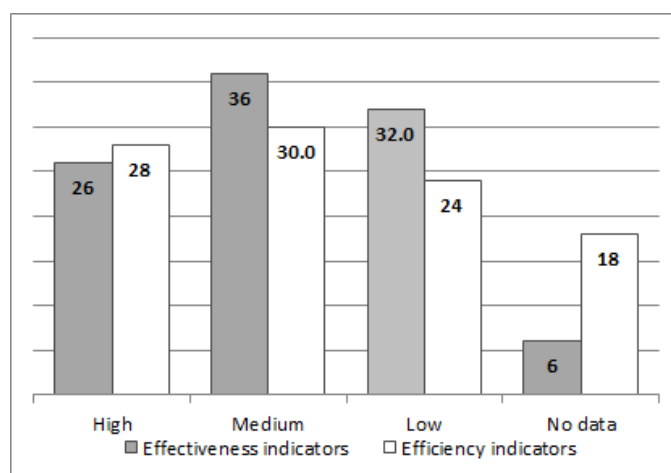
- 1.6 The information from the ECGs and EPs shows that although around one quarter of the entities show a high level of fulfillment of the effectiveness and efficiency indicators, approximately one third achieved a medium level and one third only a low level (Figure 2). It should be noted that 18% lack efficiency indicators or do not monitor them. It has been possible to identify effectiveness indicators for the entire sample of entities in the program, and half of them have medium or low levels of fulfillment. In the case of efficiency, only four entities have indicators, two of them with a medium level of fulfillment and two with a high level.¹¹ This shows that there is significant margin for performance improvements, in terms of both effectiveness and efficiency, in the universe of entities that the program would address.

⁹ The entities are: Servicio Nacional de Pesca [National Fisheries Service] (SERNAPESCA), Servicio Nacional del Consumidor [National Consumer Service] (SERNAC), Corporación Nacional de Desarrollo Indígena [National Indigenous Development Corporation] (CONADI), Instituto Nacional de Estadísticas [National Statistics Institute] (INE), Departamento de Protección de Derechos [Department for the Protection of Rights] (DEPRODE), and Departamento de Reinserción Social Juvenil [Youth Social Reintegration Department] (DRSJ), the last two of which belong to the Servicio Nacional del Menor [National Service for Minors] (SENAME). DEPRODE and DRSJ were considered separately as it is anticipated that they will be separate public services in the future. [Optional electronic link #7](#) shows the analysis of the data from these diagnostic assessments. Consistent with the project profile, entities were selected according to the priorities in the 2014-2018 Government Plan. Although CONADI was considered when the diagnostic assessment was drawn up, the government subsequently decided not to consider indigenous people's institutions when preparing the pilot project for the program.

¹⁰ See [optional electronic link #8](#) for more on the methodology for preparing the indicator. The overall capacity management indicator comprises four indicators: strategic alignment, strategic management, process management, and support systems.

¹¹ The absence of efficiency indicators is a weakness that needs to be overcome during final design of program projects. Calculation at the end of the first year of execution will be obligatory in those cases where baselines cannot be calculated prior to the start of execution.

Figure 2. Fulfillment of Effectiveness and Efficiency Indicators (% of cases)



Source: Budget Directorate (DIPRES) ECGs and EPs.

- 1.7 **Analysis of causes.** Problems of four types underlie entities' effectiveness and efficiency shortcomings: (i) limitations regarding the strategic alignment with the policy and regulatory framework; (ii) inadequate strategic capacity to steer management; (iii) weaknesses in substantive work processes; and (iv) deficiencies in administrative support processes.
- 1.8 In relation to the weaknesses in strategic alignment, the ECGs show that although in six of 11 cases planning systems and routines are used, their quality was judged to be good in just three cases. A closer look at the sample of entities for this program reveals significant weaknesses in alignment. Thus, the strategic alignment index prepared for these entities averages 5.64 out of a maximum of 10.¹² The main weaknesses observed are the absence of areas responsible for strategic planning and policy-making, and weaknesses in the preparation of monitoring and evaluation plans, as although they exist, they rarely lead to feedback and improvements (a point that coincides with the findings of the ECGs and EPs). Moreover, the 2014-2018 Government Plan identifies 19 public policy areas in which significant problems of alignment exist between government priorities and services to citizens due to the lack of bodies responsible for governance or management of service delivery. In response to this, the plan identifies 17 initiatives for the creation of new governing bodies and four new delivery entities.
- 1.9 As regards entities' inadequate strategic capacity for management, the information from the ECGs and EPs shows that there is complete aggregate strategic information (regarding demand, outputs, inputs, and outcomes) available for use in decision-making in just 24% of cases. According to this same source, 70% of the cases evaluated do not have a system or complete set of effectiveness indicators.

¹² The index measures the entity's degree of alignment with the regulatory frameworks in force and the strategic planning and policy making capacity ([see optional electronic link #8](#)).

For efficiency indicators, this weakness affects 80% of cases. It is clear that with these shortcomings many entities do not have the capacity to steer production and delivery processes strategically. The program's sample of entities corroborates this conclusion: the strategic management index prepared for them reached an average value of 4.43 out of 10 points.¹³ The main weaknesses found were: (i) absence of tools for the generation of knowledge as an input to strategic decisions; (ii) limited availability of a repository of data, information, and knowledge, (iii) the low level of professional qualifications among managers involved in strategic management; and (iv) the absence of areas responsible for operations planning, instruments, and routines. None of the entities in the sample has a comprehensive system of effectiveness and efficiency indicators; indeed, their indicators only measure part of their business, more at the level of outputs than outcomes.¹⁴

- 1.10 As regards the weakness of the substantive work processes, the ENDC shows that the percentage of users of services needing to make a complaint remained high (42% in 2011 and 40% in 2013). The main reasons for complaints relate to internal working processes: (i) poor service (30%), (ii) slow service (18%); and (iii) long waiting times (13%). Analyzing processes from within entities, the ECG reveals significant shortcomings. Thus, in only five of the 11 cases was it considered that there was adequate alignment between the work processes carried out and the established deliverables. In light of both the ECGs and EPs, in 34% of cases the alignment between the processes and organizational structure is medium or low. As regards the sample of entities, the process management index also highlights weaknesses, with an average score of 4.65 out of 10.¹⁵ Key weaknesses include: (i) the lack of automated management systems; (ii) the absence of quality standards associated with processes; (iii) the incomplete match between processes and their budget; (iv) limited use of monitoring information to correct deviations; and (v) lack of connection between changes in staffing levels and operational demand. The following points also stand out: (i) lack of information to measure process productivity, and the existence of organizational structures that do not facilitate them; (ii) staff profiles mismatched to substantive tasks; and (iii) lack of an information system providing inputs to performance indicators.
- 1.11 In relation to administrative support processes, the ECGs and EPs do not provide information on performance. However, a study by the University of Chile¹⁶ shows

¹³ The index measures the availability of strategic management instruments and resources (i.e., to guide management towards deliverables of value for users) and their level of implementation and institutionalization ([see optional electronic link #8](#)).

¹⁴ This weakness is expected to be overcome during the final design and approval of the projects that will form part of the program. When it is not possible to calculate the baselines for the start of execution, their calculation at the end of the first year of execution will be required.

¹⁵ The index measures the availability and implementation of operational management resources and instruments (i.e., management of substantive work processes), and their institutionalization ([see optional electronic link #8](#)).

¹⁶ This study was conducted by the University of Chile's Public Systems Center, based on a survey of 514 public employees in 28 departments between 2005 and 2009.

that in 28 of the entities considered, officials gave average quality scores for administrative processes relative to human resources, budget and accounting management, and information systems and their support. Additionally, for the sample of program entities, the administrative support systems index reached an average of 4.01 out of 10.¹⁷ The main weaknesses found were: (i) the performance evaluation's lack of strategic emphasis (giving an overall score); (ii) the lack of plans for the development of information systems; (iii) the absence of comprehensive plans to address human resource needs; (iv) lack of information for output and process costings; and (v) late implementation of the risk mitigation measures indicated in the audit matrices.

- 1.12 The analysis carried out on a sample of entities enables an overall index of management capacities to be constructed, summing up the values of the indices mentioned above.¹⁸ This index yields an average value of 4.66 out of 10, with values ranging from 3.73 to 5.65. There is clearly a significant opportunity to improve entities' management, which should be reflected in improvements in service delivery effectiveness and efficiency.
- 1.13 Shortcomings in the central government's performance planning, monitoring, and evaluation of Executive Branch entities also played a role in the weaknesses noted. Although since 2010 the Ministry of Finance has reoriented its performance management system (which includes the ECGs and EPs, the Management Improvement Program (PMG), and senior public management performance agreements), this initiative is not yet sufficiently entrenched in the institutional framework or integrated with other government performance management systems.¹⁹ Additionally, in the case of ENDC, the tool used to evaluate citizens' satisfaction with services, the project team has identified weaknesses such as: (i) the questionnaire is too long; (ii) it pursues a multiplicity of goals, undermining its focus; and (iii) it applies uneven public services selection criteria.
- 1.14 **Rationale.** The analysis indicates there is a significant opportunity to enhance citizens' satisfaction with services, acting on entities' effectiveness and efficiency constraints, i.e., on the four dimensions of management reviewed. Bearing in mind this opportunity, the Government of Chile has requested from the Bank an instrument enabling it to intervene in a timely way in those entities offering services with medium or low levels of satisfaction, so as to achieve real improvements in their effectiveness and efficiency, and in those entities requiring a significant

¹⁷ The index measures the capacities of support processes for the entity's substantive activities ([see optional electronic link #8](#)).

¹⁸ The index measures the entity's overall management capacities ([optional electronic link #8](#)).

¹⁹ For a comprehensive evaluation of the PMG system, see: *World Bank*, 2011: [Chile, estudio de evaluación en profundidad del Programa de Mejoramiento de la Gestión](#) [Chile. Detailed evaluation study on the Programa de Mejoramiento de la Gestión]. The study concluded that the PMG needed to advance towards a stage in which improvements in management quality were linked with the quality of final goods and services offered. Regarding the refocusing of this and other performance management systems, see: [Informe de Finanzas Públicas 2014 \[2014 Public Finances Report\], Sections V.2 and V.1.2.](#)

strategic reorientation. The government considers that, given the structure of Chile's Executive Branch, this intervention requires action both at the level of the entities responsible for governance (sector or central), and those in charge of the direct delivery of services. Lastly, the government considers that, as well as intervening in the existing entities in various policy areas, new entities need to be instituted.

- 1.15 The proposed program aims to respond to this demand through an instrument that is sufficiently flexible and progressive so that, over the course of the execution period, the entities to be supported may gradually be identified, and projects designed tailored to meet the needs of each, ensuring their correct execution and the evaluation of the results. To accomplish this, the program will contribute a consistent set of methodologies to: (i) diagnose and dimension the constraints beneficiary entities face (see paragraphs 1.7 to 1.12); (ii) support the implementation of new entities according to policy requirements; (iii) prepare management improvement projects that respond to the diagnostic assessments conducted; (iv) supervise project execution; and (v) evaluate project outcomes and impacts.²⁰
- 1.16 **Strategic alignment.** The operation responds to the public management strategic area of the Bank's Country Strategy with Chile (document GN-2785), which is currently in revision. It gives priority to strengthening a set of agencies—both existing ones and others pending creation—with a view to offering more effective and efficient services. Likewise, it highlights the importance of strengthening public institutions to promote the region's development, through the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2).
- 1.17 The Bank has considerable experience in management improvement in Chile, reflected by the following loan operations: Strengthening of Pension System Management and Information (loan 1882/OC-CH), Program to Support SENCE's Effectiveness (loan 2793/OC-CH), Program for the Strengthening of the Corporación Administrativa para el Poder Judicial (loan 1666/OC-CH), Innovation Loan for A Safer Chile Program (loan 1495/OC-CH), and Program for the Strengthening of Chile's Digital Strategy (loan 1585/OC-CH). In the case of governance: Program for Strengthening the National Civil Service Directorate (loan 1622/OC-CH) and Program for Institutional Modernization of the State Defense Council (loan 2538/OC-CH). The following programs are also noteworthy: the Citizen Service Efficiency Project in Colombia (loan 3154/OC-CO), the Program for Modernization of the Executive Branch of the Federal Government in Brazil (loan 1042/OC-BR), and the Public Administration Institutional Reform Program in Ecuador (loan 2653/OC-EC).²¹ The lessons emerging from these operations that are applicable to the program include: (i) the importance of the strategic focus to ensure

²⁰ For items (i), (ii) and (iii) see [optional electronic link #8](#), and [optional electronic link #9](#).

²¹ [Optional electronic link #12](#) reviews two of these projects in which a positive causal relationship can be seen between better management and improved institutional effectiveness.

alignment of working processes with institutional priorities; (ii) the weight of political and institutional leadership to ensure coordination and collaboration in fragmented government environments; and (iii) the need to invest in information and communications technologies to raise efficiency and reduce transaction costs for citizens and businesses in their dealings with the public sector. These lessons have been incorporated into the program using the methodology designed for institutional diagnostics, emphasizing governing bodies, and the envisaged role for the Ministry of Finance in the implementation framework. From this perspective the program aims to raise efficiency and effectiveness in government sectors that have not yet benefited from previous programs.

B. Objectives and components

- 1.18 The general objective is to help increase citizens' satisfaction with the services they receive from the State. The specific objective is to improve the effectiveness and efficiency of the entities (governing bodies and service providers) supplying services to citizens, by enhancing their management capacities.
- 1.19 The Government of Chile realizes that citizens' satisfaction is one dimension of the quality of the products and services the State delivers. Given the interest in developing measurements for this, the Ministry of Finance has undertaken to develop a series of indicators on the quality of the products and services delivered during the first two years of program implementation. These indicators will be available to complement those listed in the Results Matrix, both for project evaluation and for the program's midterm, final, and impact assessments. The resources of Component III will be used for this purpose.
- 1.20 The program will develop projects to improve governing bodies (whether sector-specific or central) and delivery entities. Financial support for new entities to be set up will also be provided. The program will therefore support four types of projects: P1 projects to improve existing governing bodies; P2 projects to support the implementation of new governing bodies; P3 projects to improve service delivery entities; and P4 projects to support the implementation of new service delivery entities. The design and dimensioning of the program has been based on a sample of five projects.²²
- 1.21 The program is divided into three components: The first two concern management improvement projects or implementation of new entities, and the third refers to

²² These are: Improving the management of the National Fisheries Service (SERNAPESCA), Improving the management of the National Consumer Service (SERNAC), Improving the management of the National Statistics Institute (INE), Support implementing the National Service for the Protection of Minors, and Support implementing the Youth Social Reintegration Service. The projects include a diagnostic assessment, components, deliverables, results matrix, budget, and procurement plan ([optional electronic link #10](#)). It should be noted that the projects in question are not definitive and are subject to revision and improvement until final approval.

strengthening central instruments for project preparation, monitoring and evaluation.²³

- 1.22 **Component 1. Strengthening entities responsible for governance functions (P1 and P2 projects) (US\$26.91 million).** This component will finance actions to: (i) diagnose beneficiary entities' deliverables and management capacities; (ii) establish the characteristics of the deliverables and capacities necessary for new entities; (iii) formulate and approve projects; and (iv) implement projects. The financing may include: (i) contracting consulting services (individual consultants and firms); (ii) contracting services; (iii) information systems and IT equipment; and (iv) procurement of goods. Projects will be divided into components for each of the areas of management in which they will intervene, based on the diagnostic assessment (strategic alignment, strategic management, process management, and support systems). This will ensure that, following the program logic, the investment will focus on weaknesses, so as to have an impact on the entities' effectiveness and efficiency. It is projected that two P1 projects will be approved, with a cost of between US\$4 million and US\$6.5 million and that three P2 projects will be approved, with a cost of US\$4 million to US\$6 million.²⁴
- 1.23 **Component 2. Strengthening entities responsible for service delivery (P3 and P4 projects) (US\$53,424,000).** This component will finance the same activities and outputs as the previous one, but for service delivery entities. It is projected that five P3 projects will be approved, with a cost of between US\$6 million and US\$8.5 million and that two P4 projects will be approved, with a cost of between US\$6 million and 8.5 million.²⁵
- 1.24 **Component 3. Development of instruments for improvement and implementation project preparation, monitoring, and evaluation (US\$10 million).** This component will support implementation of the two preceding components through actions to improve or develop appropriate instruments for the planning, execution, monitoring, and evaluation of projects or initiatives to improve management or implement new entities.²⁶ This will facilitate the implementation of the program's projects and ensure the future sustainability of the improvement efforts, making it possible to replicate the process at other entities not included in the program. This component will finance: (i) studies into policy areas that require policy and management improvements to raise the quality of services to citizens; (ii) studies and developments relating to the regulatory framework, coordination instruments, and crosscutting information tools and systems necessary for service delivery; (iii) development and implementation of

²³ See [optional electronic link #3](#) for the program's vertical logic.

²⁴ See [optional electronic link #5](#). These costs were estimated based on a sample of projects.

²⁵ See [optional electronic link #5](#). These costs were estimated based on a sample of projects.

²⁶ Given that these actions will be carried out centrally by the SSH, whereas the projects included in Components I and II will be implemented in a deconcentrated manner by beneficiary entities, it was determined that these actions should be organized in a separate component from the other two.

diagnostic and design instruments for improvement and implementation projects;²⁷ (iv) improvement of central planning, monitoring, and evaluation instruments for entities' performance, included in the Ministry of Finance performance management system and ENDC; and (v) generation of knowledge on service management and training of public employees. A breakdown of the activities to be performed can be seen in [optional electronic link #13](#).

C. Key results matrix indicators

- 1.25 The impact indicator will be the improvement to citizens' satisfaction with the public services provided by beneficiary entities, calculated on the basis of the ENDC satisfaction index.²⁸ The proposed outcome indicators refer to the fulfillment of effectiveness and efficiency targets by beneficiary entities. The indices for the four areas of management examined have been taken as intermediate outcomes (see paragraphs 1.7 to 1.11) together with the aggregate management capacity index (see paragraph 1.12). The baseline and targets have been calculated based on a sample of program entities. The methodologies developed for project diagnostic studies and design ensure that it will be possible to measure these indicators in the future.

D. Economic evaluation

- 1.26 A cost-effectiveness analysis has been carried out considering four of the entities in the project sample. This compares the monetary cost per unit of improvement in the management capacity indicator that would be produced with the program versus without the program. The alternative resulting from application of the program is more cost-effective than the alternative without the program. In other words, on the basis of the aggregate indicator measuring management capacity, it is observed that the management capacity index (ICAGE) is 68.7% more efficient with the program than without ([see optional electronic link #1](#)).

II. FINANCING INSTRUMENTS AND MAIN RISKS

A. Financing instruments

- 2.1 The total cost of the program is US\$96 million, of which US\$48 million will be financed by the Bank from the Ordinary Capital resources, and US\$48 million will be financed from the local contribution. The consolidated budget is shown in Table 1 ([optional electronic link #2](#)). The expenditure categories to be covered include the procurement of goods, services, and consulting services. The program's financial costs and current expenditures will be covered by resources from the Treasury.

²⁷ The instruments developed for this program will be taken as the starting point (see optional links #8 and #9).

²⁸ It has been agreed that as of 2015 ENDC will progressively include in its measurement delivery entities that have progressively benefitted from the program.

Table 1. Program Cost (US\$)

	IDB	Local contribution	TOTAL
Component 1	13,455,000	13,455,000	26,910,000
Project preparation	205,000	205,000	410,000
Project implementation	13,250,000	13,250,000	26,500,000
Component 2	26,712,000	26,712,000	53,424,000
Project preparation	287,000	287,000	574,000
Project implementation	26,425,000	26,425,000	52,850,000
Component 3	5,000,000	5,000,000	10,000,000
Studies on policy areas	606,000	606,000	1,212,000
Development of diagnostic and design instruments	1,382,000	1,382,000	2,764,000
Development of instruments to improve services	942,000	942,000	1,884,000
Improving central instruments	1,740,000	1,740,000	3,480,000
Knowledge generation and training	330,000	330,000	660,000
Monitoring and evaluation activities	333,000	333,000	666,000
Program administration	2,500,000	2,500,000	5,000,000
TOTAL	48,000,000	48,000,000	96,000,000

B. Environmental and social safeguard risks

- 2.2 No adverse environmental or social effects are expected to be associated with the program. In accordance with the Environment and Safeguards Compliance Policy (OP-703), this has been classified as a Category “C” operation (see Annex IV).

C. Fiduciary risks

- 2.3 Annex III and the Risk Matrix identify difficulties complying with the procurement plan correctly as a medium level fiduciary risk. The mitigation measures considered are: (i) a procurement expert joining the program coordination unit (PCU); (ii) training activities by the Bank’s Country Office in Chile for the PCU on procurement matters; and (iii) ongoing monitoring of program execution plans (PEP) and procurement plans for the projects as part of the Bank’s sector technical support work.

D. Other risks

- 2.4 The Risk Matrix encapsulates the analysis and the mitigation measures. Delays in taking the legal steps necessary to set up new entities or reform existing ones has been identified as a high level risk. To mitigate this risk, the legislative agenda will be reviewed periodically to identify possible delays leading to changes in the timetable for incorporating entities into the program. Insufficient central coordination capacity was also identified as a medium level risk. To mitigate this, the capacity of the strategic committee and the PCU will be strengthened, incorporating relevant stakeholders in the former as a function of the coordination problems that may arise, and strengthening the PCU with more staff if required. The program is considered low risk.

III. IMPLEMENTATION AND ACTION PLAN

A. Summary of implementation measures

- 3.1 **Borrower, executing agency, and execution mechanism.** The borrower will be the Republic of Chile, and the executing agency will be the Ministry of Finance through the Subsecretariat of Finance (SSH). The execution period will be six years.
- 3.2 A strategic committee will be in charge of strategic management of the program. It will be comprised of the modernization of the State coordinator, who will chair it, and the information technology coordinator, both of whom will be from the office of the Minister of Finance; it will also include the deputy director for rationalization and the civil service, the head of the Research Department, and the head of the Management Control Division, all belonging to DIPRES; notwithstanding, representatives of other ministries may join the committee during program execution. A PCU will be created within the SSH for program administration, and it will be the interlocutor with the Bank. The PCU will have a program coordinator, who will serve on the strategic committee, and the following staff: (i) two administrative/financial specialists; (ii) one procurement specialist; (iii) a legal specialist; (iv) a monitoring and evaluation specialist; and (v) at least four specialists in project design and management. The PCU will execute the activities under Component 3, and those in the monitoring and evaluation plan ([required electronic link #2](#)). **Hiring the program coordinator will be a special condition precedent to the first disbursement.**
- 3.3 **Project preparation, approval, and execution.** The program is projected to benefit 12 entities,²⁹ to be selected by the strategic committee, which will report its selection to the Bank. The PCU will be in charge of preparing the projects, with technical support from the Bank. Projects will be approved by the strategic committee and the Country Office in Chile. Table 2 estimates the number of projects to be approved each year, which will have an average execution period of four years. The PCU will be responsible for their monitoring and evaluation, with the Bank's support.

Table 2. Estimated project approvals per year

Year	I	II	III	IV	V	VI
Projects	4	5	3	-	-	-

- 3.4 **Execution mechanism.** Once projects have been approved, the SSH will transfer the resources earmarked for the beneficiary entities' respective project activities to the regular fiscal budget. Beneficiary entities will carry out all the technical and administrative activities necessary for the execution of their projects. The PCU will

²⁹ See [optional electronic link #5](#).

supervise the progress of project activities, consolidating information on expenses, contracting, and procurement at the program level, and it will draw up financial statements for them. The SSH will request reimbursements from the Bank, payable from the loan, for expenditures made on procurements in the program's procurement plan. For this purpose it will submit lists of expenditures in the manner established for that purpose. The Bank will verify their relevance and fulfillment of the levels of approval prior to procurement, envisaged for the aforementioned expenditures in the program procurement plan and in its updates. The Program Operating Manual will contain the details of the execution mechanism. **Approval of the Program Operating Manual by the executing agency, with the Bank's prior no objection, will be a special condition precedent to the first disbursement.**

- 3.5 **Program execution plan.** The program execution plan (PEP) estimates the start date and the midterm evaluation and final evaluation dates of the projects in the sample of entities ([required electronic link #1](#)), and for the actions in Component III. Each project's actions will be listed in its PEP, which will incorporate the projects' milestones as they are approved. The annual updates to the PEP should be approved by the strategic committee and sent to the Bank. Updates to PEPs for the projects will be approved by the PCU.
- 3.6 **Fiduciary agreements and requirements.** The main fiduciary measures have been agreed on and are outlined in Annex III. These include: (i) the exchange rate to be used; (ii) audits; (iii) record and reporting systems; (iv) disbursement modalities and expense reporting; (v) modalities, types, and threshold amounts for procurement processes and review method; (vi) the program procurement plan; and (vii) the financial supervision plan. The program will be consistent with the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9) and the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-9), as well as national legislation and the ChileCompra system, within the scope for which its use was approved by the Bank's Board of Executive Directors on 14 December 2011.³⁰
- 3.7 **Procurement plan.** The program's initial procurement plan ([required electronic link #3](#)) includes procurement for the projects in the sample of entities for Components I and II, and procurement for Component III. Each project will have a procurement plan. Procurement and contracting for which the terms of reference are

³⁰ The Bank's Board of Executive Directors approved the use of Chile's country procurement system in Bank-financed operations, within the scope and thresholds established for Chile, which are currently: (i) US\$350,000 for works; (ii) US\$350,000 for goods and services; (iii) US\$500,000 for consulting services; and (iv) the Bank sets no threshold in the case of individual consulting services. These thresholds are set by the Bank per country and are updated in accordance with market trends. Over these amounts, contracting and procurement wholly or partly financed by the Bank must comply with documents GN-2350-9 and GN-2349-9 or be entirely financed with the local contribution, if the executing agency wishes to use only country legislation.

subject to the prior no objection of the Bank will be identified. The program procurement plan will aggregate project procurements as projects are approved. All updates to the procurement plan are to be presented to the Bank for approval. The Bank will conduct annual supervision missions to review the relevant procurement processes.

- 3.8 **Advance procurement, retroactive financing, and recognition of expenditures.** The Bank will provide retroactive financing (from the loan proceeds) of up to US\$1 million (2.08% of the financing) and will recognize eligible expenditures (charged to the local contribution) up to US\$1 million (2.08% of the local contribution), in the case of expenditures made during the 18 months prior to the loan approval date but not before 5 May 2014 (date of approval of the project profile). Such expenditures include contracting in Components I and II for project design, and in Component III for studies and improvement of the ENDC, and setting up and running the PCU. This contracting will be recognized provided the provisions of the applicable procurement policy are fulfilled.
- 3.9 **Program disbursement plan.** Table 3 shows the estimated disbursements for the six years of the program's disbursement period, consistent with the projected project approvals (see paragraph 3.3).

Table 3. Estimated disbursements per year

Year	I	II	III	IV	V	VI	Total
US\$ million	3.5	12.1	12.8	10.8	6.5	2.3	48.0

B. Summary of the monitoring and evaluation framework

- 3.10 **Monitoring** (See [required electronic link #2](#)). The executing agency will use the Results Matrix, the PEP, the performance monitoring report (PMR), and the Risk Matrix. Financing has been included for the activities that will generate the necessary information ([optional electronic link #2](#)). Six-monthly monitoring meetings will be held with the executing agency to review: (i) progress of PEP activities and any necessary corrective measures; (ii) progress of the indicators in the Results Matrix; (iii) changes in risk; (iv) financial execution; and (v) the auditors' recommendations. The PEP and program procurement plan will be updated every six months. Semiannual status reports will be prepared for review by the Bank.
- 3.11 **Evaluation** (See [required electronic link #2](#)). A midterm evaluation will be carried out (60% of resources disbursed) and a final evaluation (90%) to determine the degree of progress and fulfillment of the PEP's deadlines and milestones, and progress on the targets in the Results Matrix. For this purpose consulting services will be contracted, the terms of reference for which will require the no objection of the Bank. An evaluation will also be carried out on each project. An impact evaluation will be performed, using the difference-in-difference methodology. This

evaluation will use the ENDC to compare entities due to be beneficiaries of the program with those that are not. This semi-experimental impact evaluation will use the ENDC 2015 baseline and measurements for 2017 and 2020. The financing of program and project evaluations and of the program's impact evaluation (including the ENDC) is considered in [optional electronic link #2.](#)

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Not Aligned		
Lending Program			
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)			
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2785 *	More effective and efficient public institutions providing improved services to citizens.	
Country Program Results Matrix	GN-2756-2	The intervention is included in the 2014 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.1		10
3. Evidence-based Assessment & Solution	9.4	33.33%	10
3.1 Program Diagnosis	2.4		
3.2 Proposed Interventions or Solutions	4.0		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	8.8	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.2		
4.3 Identified and Quantified Costs	1.2		
4.4 Reasonable Assumptions	1.2		
4.5 Sensitivity Analysis	1.2		
5. Monitoring and Evaluation	9.1	33.33%	10
5.1 Monitoring Mechanisms	2.0		
5.2 Evaluation Plan	7.1		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Low		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	C		
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/PDP Criteria)	Yes	Financial Management: i) Budget, ii) Treasury, iii) Accounting and reporting, iv) External Control, v) Internal Audit. Procurement: i) Information system, ii) Shopping method, iii) Contracting individual consultants, iv) Advanced use of National System.	
Non-Fiduciary	Yes	i) Strategic Planning National System, ii) Monitoring and Evaluation National System.	
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	An impact evaluation will be undertaken, using a difference in differences methodology, which will allow the comparison of user satisfaction between participating and not participating agencies.	

* Country Strategy 2014-2018 under revision.

The Chilean government offers a wide range of services through 112 agencies. While services are relatively well valued by the public, the evidence suggests that there is a disparity in service satisfaction, and the risk of their progressive degradation. In this context, the central challenge the new administration wants to address is to improve the effectiveness and efficiency of low and medium quality services and prevent the degradation of those with good levels of service, for which it has requested Bank support.

The POD provides an analysis of these changes and their causes with empirical evidence derived from comprehensive expenditure assessments and program evaluations conducted since 2008 by DIPRES. Since these sources have limitations in capturing dimensions of service efficiency and effectiveness, a diagnosis of six potentially participating entities was developed by applying a new analytical tool that allows the assessment of weaknesses associated with these dimensions of service management: strategic alignment, management of key processes and administrative support processes.

The project proposes three components : (i) Strengthening institutions responsible for leadership functions , (ii) Strengthening service delivery entities , and (iii) Development of tools for the preparation, monitoring and evaluation of improvement projects.

The results matrix has clear vertical logic in which the final impact, citizen satisfaction, is derived from improving the effectiveness and efficiency of the various services. This improvement is expected to be achieved through the investments financed by the project. A cost-effectiveness analysis is included using indicators derived from a sample of four projects. The Monitoring and Evaluation Plan is complete. A quasi-experimental evaluation of the project's impact indicator is proposed.

RESULTS MATRIX

Objective: To help increase citizens' satisfaction with the services they receive from the State.

Specific objective: To promote the effectiveness and efficiency of the entities (governing bodies and service providers) supplying services to citizens, by improving their management capacities.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline		Target		Target		Source/Mean of verification
		Value	Year	Value	Year	Value	Year	
EXPECTED IMPACT: Increased citizen satisfaction with public services provided by delivery entities included in the program								
Increase in the level of citizen satisfaction with public services provided by delivery entities included in the program	%	0	2015	25	2017	50	2020	National survey of citizens' rights (ENDC), average value of index in entities benefiting from the program.

OUTCOMES

Indicators	Unit of measure	Baseline		Target(*)		Source/Mean of verification
		Value	Year	Value	Year	
Expected outcome 1: Improved effectiveness of entities offering services to citizens						
1. Level of fulfillment of the effectiveness target set in at least two thirds of the governing bodies included in the program*	% fulfillment of target	0	2014	70 to 100	2020	Final evaluations of program projects
2. Level of fulfillment of the effectiveness target set in at least two thirds of the service delivery entities included in the program*	% fulfillment of target	0	2014	70 to 100	2020	Final evaluations of program projects

Indicators	Unit of measure	Baseline		Target(*)		Source/Mean of verification
		Value	Year	Value	Year	
Expected outcome 2: Improved efficiency of entities offering services to citizens						
3. Level of fulfillment of the efficiency target set in at least two thirds of the governing bodies included in the program**	% fulfillment of target	0	2014	70 to 100	2020	Final evaluations of program projects
4. Level of fulfillment of the efficiency target set in at least two thirds of the service delivery entities included in the program**	% fulfillment of target	0	2014	70 to 100	2020	Final evaluations of program projects

* The indicator implies that 66.7% of the beneficiary entities fulfill at least 70% of their effectiveness targets.

** The indicator implies that 66.7% of the beneficiary entities fulfill at least 70% of their efficiency targets.

INTERMEDIATE OUTCOMES

Indicators	Unit of measure	Baseline		Target (*)		Source/Mean of verification
		Value	Year	Value	Year	
Intermediate outcome: Management capacity of governance bodies or service delivery entities improved						
1. Strategic alignment index	Index 0-10	5.6	2014	8.3 to 9.2	2020	Final evaluations of program projects
2. Strategic management index	Index 0-10	4.4	2014	6.9 to 7.6	2020	Final evaluations of program projects
3. Process management index	Index 0-10	4.6	2014	7.4 to 8.2	2020	Final evaluations of program projects
4. Administrative support index	Index 0-10	4.0	2014	7.3 to 8.0	2020	Final evaluations of program projects
5. Overall management capacity index	Index 0-10	4.6	2014	7.5 to 8.3	2020	Final evaluations of program projects

* The baseline and targets have been calculated based on the diagnostic assessments and projects prepared for a sample of six program beneficiary entities. The summary of the project's outcome indicators can be seen in [optional electronic link #4](#).

OUTPUTS

Output	Unit of measure	Baseline	2015	2016	2017	2018	2019	2020	Means of verification
COMPONENTS I and II									
1. Number of projects approved	No. of projects	0	4	5	3	0	0	0	Semiannual status reports
2. Level of fulfillment of the PEP milestones of at least 2/3 of the projects in execution	Percent	0	0	70	70	70	70	70	Annual progress reports on projects in execution
3. Number of projects with final evaluation	No. of projects	0	0	0	0	0	5	7	Project final evaluation reports
COMPONENT III									
4. ENDC applied with new methodology	No. of applications	0	1	0	1	0	0	1	ENDC report
5. Studies on improvement of management instruments carried out	No. of studies	0	1	1	1	0	0	0	Semiannual status reports
6. Technical update events held on management of services for citizens	No. of events	0	2	3	3	2	2	0	Semiannual status reports

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Chile

Project number: CH-L1085

Name: Public Management and Citizen Services Improvement Program

Executing agency: Ministry of Finance

Prepared by: Francisco Lois (FMP/CCH); Raúl Lozano (FMP/CPR); Roberto Monteverde (Procurement Consultant); and Macarena Torres (Financial Consultant)

I. EXECUTIVE SUMMARY

- 1.1 An analysis of the institutional and management capacity was performed on the Ministry of Finance's Subsecretariat of Finance (SSH) as the program's executing agency, applying a risk assessment methodology¹ termed "Guía para Determinar el Nivel de Riesgo de Organismos Ejecutores" [Guide for determining the risk level of executing agencies], which yielded a low fiduciary risk. However, procurement Pillar VI was found to be medium risk. Also, in accordance with project risk management (PRM), the endogenous and exogenous risks of the fiduciary aspects were evaluated.
- 1.2 The program envisages beneficiary entities executing activities previously agreed on with the executing agency that will be financed out of the regular budget assigned to them. Evidence of the activities performed and expenditures made will be submitted to the executing agency, which will request loan proceeds from the Bank in the form of reimbursements for expenditures made by both the beneficiary entities and the executing agency. The executing agency may also request disbursements in the form of advances or direct payments to suppliers.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 The executing agency works within the public and financial management system (SAFP), primarily using the government financial management information system (SIGFE) for budgeting, accounting, and payments; it also has a solid internal audit unit and is overseen by the Office of the Controller General of the Republic (CGR). The Bank has conducted a diagnostic assessment on the level of development of the following country systems: budget; treasury management;

¹ IDBDOCS No. 38973379.

accounting; government internal audit (CAIGG); and external audit (CGR), and found them to have a high level of development.

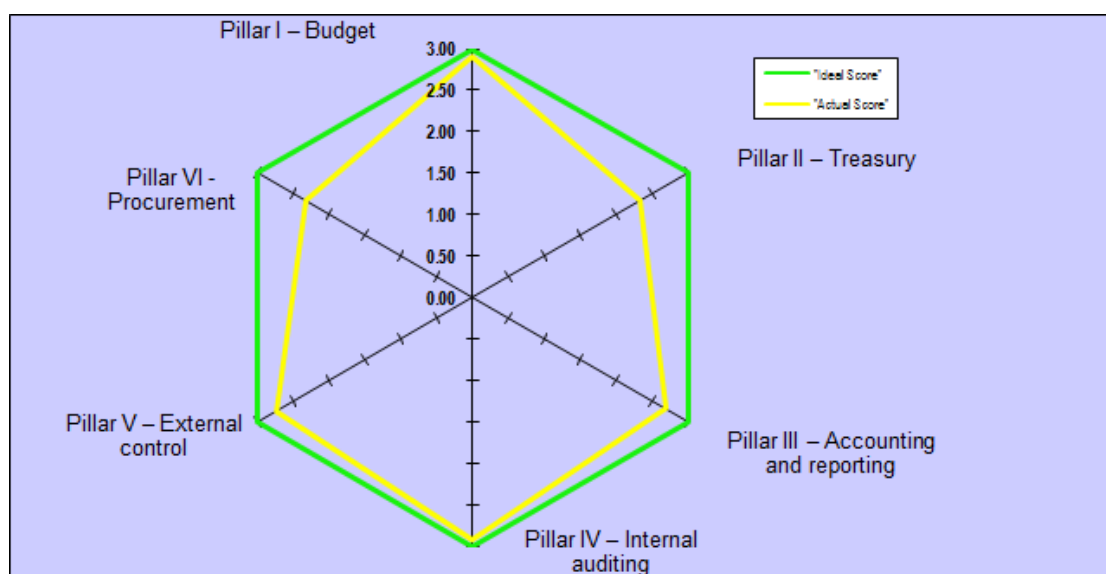
- 2.2 For procurement management, the executing agency uses the ChileCompra system—a robust public procurement system with a modern and efficient electronic system, through which the bulk of the country’s public procurement and purchasing is done.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 **Procurement and financial fiduciary risk.** The principal procurement fiduciary risks would arise out of potential noncompliance with the procurement plan and consequently with the annual work plan (AWP), given that the type of program is such that the majority of the loan proceeds are intended for the selection and procurement of goods and contracting of consulting services by beneficiary entities other than the Ministry of Finance. These must have appropriate terms of reference, adequately staffed technical teams—and the necessary permanence of these teams—, and knowledge of the applicable procedures. Key fiduciary risks are the number of beneficiary entities and the executing agency’s lack of familiarity with the Bank’s financial policies. Although there is a loan contract currently under execution in the Ministry of Finance with the title “Support for the Establishment of an Integrated Foreign Trade System (loan 2539/OC-CH)”, the individuals comprising the program coordination unit (PCU) may be different, and the new program will work with a variety of beneficiary entities, such that they may lack experience.
- 3.2 **Mitigation actions.** This program will use the country financial management systems (SAFP), and will be audited by the CGR in accordance with the terms of reference the Bank has agreed on with it, and the provisions of the letter of agreement signed in May 2012. As a condition precedent, a PCU will be set up within the Ministry of Finance’s Subsecretariat of Finance. It will have a procurement specialist with knowledge of and experience in public procurement so that procurements are carried out in a timely way and coordinated within each of the program components. It will also include a financial accounting manager with experience using the government financial management information system (SIGFE) and preparing financial reports. He or she will be in charge of ensuring the timely and correct accounting for program transactions at the executing agency, preparing disbursement requests and supporting documentation for expenditures, and preparing program financial statements. Similarly, project executing units (PEUs) with similar characteristics will be created in each of the public entities responsible for the execution of the activities in Components I and II, a process the Bank will support with training for these units’ staff. Lastly, the internal audit unit will follow up on the recommendations made by the CGR’s audits, hold a start-up workshop, and run ongoing training for the executing agency and beneficiary entities.

DETERMINATION OF THE EXECUTING AGENCY'S RISK LEVEL

SECTION I: COUNTRY SYSTEMS	Score		Final score	Level of development	Risk level
	Obtained	Weighting			
Pillar I – Budget	2.91	5.00%	0.15	High	Low
Pillar II – Treasury	2.33	5.00%	0.12	Medium	Medium
Pillar III – Accounting and reporting	2.90	10.00%	0.29	High	Low
Pillar IV – Internal auditing	2.91	10.00%	0.29	High	Low
Pillar V – External control	2.73	10.00%	0.27	High	Low
Pillar VI – Procurement	2.33	20.00%	0.47	Medium	Medium
Final score		60%	2.64	High	Low
SECTION II: PRM	Score				Level of risk
	Obtained	Weighting			
Exogenous risk assessment	0.63	20.00%			Low
Endogenous risk assessment	0.76	20.00%			Low
Score	0.69	40.00%			Low
CONSOLIDATED ASSESSMENT	Level of risk				Low



IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 The agreements and requirements to be considered in the special conditions, as agreed with the executing agency, are set out below:
- The following will be conditions precedent to the first disbursement: (i) the contracting of the program coordinator; and (ii) approval of the Program Operating Manual by the executing agency, with the prior no objection of the Bank.
 - For the payment of advances, if requested, the same exchange rate as used to convert disbursements in dollars to the borrower's local currency will be used.

For the reimbursement of expenditures against the loan and local contribution, the exchange rate in effect on the first day of the month in which the disbursement request is submitted to the Bank will be used.

- c. The executing agency undertakes to deliver the audited financial statements for the program within 120 days following the end of each budget year during the program disbursement period. The last such report shall be presented within 120 days following the date stipulated for the last loan disbursement.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements and requirements on procurement establish the provisions that apply for the execution of all procurements planned for the project.

A. Procurement execution

- 5.2 **Procurement of works, goods, and nonconsulting services.** Contracts for goods and nonconsulting services (no contracting of works is planned) will be executed as indicated in paragraph 5.3, Use of Country Procurement System, and within the thresholds established in Section V.B.

- a. **Selection and contracting of consulting firms.** Contracts for consulting services will be executed as indicated in paragraph 5.3, Use of Country Procurement System, and within the thresholds established in Section V.B.
- b. **Selection of individual consultants.** Contracts for individual consultants under the program will be executed as indicated in paragraph 5.3, Use of Country Procurement System.
- c. **Training.** The training actions included in each of the program components will be implemented by contracting consulting services or hiring individual consultants, as stipulated in the preceding paragraphs.

- 5.3 **Use of country procurement system.** Advanced use of the Sistema Nacional de Compras de Chile [Chilean national procurement system], which was approved by the Bank,² will be made for the procurement of: (i) goods and nonconsulting services up to the threshold set for national competitive bidding (NCB); (ii) consulting services, up to the threshold for shortlists of domestic firms; and (iii) individual consultants, no thresholds. Over these thresholds, contracting and procurement wholly or partly financed by the Bank must comply with the procedures set out in the Bank's Procurement Policies (documents GN-2350-9

² In December 2011 the Bank's Board approved the advanced use of Chile's country procurement system in Bank-financed operations, within the scope and thresholds established for Chile, which are currently: (i) US\$350,000 for works; (ii) US\$350,000 for goods and services; (iii) US\$500,000 for consulting services; and (iv) no threshold in the case of individual consulting services. Over these thresholds, contracting and procurement wholly or partly financed by the Bank must comply with the procedures set out in the Bank's Procurement Policies (documents GN-2350-9 and GN-2349-9) or be entirely financed with the local contribution, if the executing agency wishes to use only country legislation.

and GN-2349-9) or be entirely financed from the local contribution, if the executing agency wishes to use country legislation alone. Any system or subsystem subsequently approved will be applicable to the operation. The operation's procurement plan and its updates will indicate that procurement will be executed using approved country systems.³

5.4 **Strengthening measures:** Not applicable.

5.5 **Advance procurement, retroactive financing, and recognition of expenditures.** The Bank will provide retroactive financing (from the loan proceeds) of up to US\$1 million (2.08% of the financing) and will recognize eligible expenditures (charged to the local contribution) up to US\$1 million (2.08% of the local contribution), for expenditures made during the 18 months prior to the loan approval date but not before 5 May 2014 (date of approval of the project profile). *Inter alia*, these expenses include contracting in Components I and II referring to project design, in Component III referring to research and improvement of the national survey of citizens' rights (ENDC), and the setting up and running of the PCU. This contracting will be recognized provided the conditions established in paragraphs 5.2(a), (b), and (c) are met.

5.6 The review of the technical specifications or terms of reference for procurements considered major or important in the procurement plans, which will be drawn up during execution of the current loan operation, must have the prior no objection of the Bank, as this is an area for which the program sector specialist is responsible.

B. Thresholds for international competitive bidding and international shortlist (US\$ thousands)

Method	ICB works	ICB goods and nonconsulting services	International shortlist for consulting services
Threshold	5,000	350	500

C. Main procurements

5.7 Click [here](#) to access the 18-month procurement plan. The program's initial procurement plan includes the procurement for the projects in the sample of six entities (each project has a specific procurement plan) in Components I and II and all the procurement for Component III. The program procurement plan will aggregate procurements from the projects as they are approved.

³ If the Bank validates any other system or subsystem, this will be applicable to the operation as established in the loan contract.

D. Procurement supervision

- 5.8 The procurement supervision method will be mainly that provided for in the validated country systems⁴ using the mechanisms agreed with ChileCompra and the technical relevance of the expenditure will be reviewed ex ante by the sector specialist where indicated in the procurement plan.
- 5.9 The procurement supervision missions will take a preventive approach and will take place half way through each of the first two years of execution of projects being implemented by beneficiary entities or program coexecuting agencies, in accordance with the project supervision plan. These procurement supervision visits carried out by the Bank will be complemented by the results of the Memorandum of Understanding agreed on with the Office of the Controller General of the Republic (CGR) that establishes annual reviews of the procurement procedures. Moreover, the executing agency's internal audit unit will follow up any shortcomings detected in procurement execution.

Threshold for ex post review ⁵		
Works	Goods	Consulting services
US\$5,000,000	US\$350,000	US\$500,000

E. Special provisions

- 5.10 Start-up workshop with the executing agency and each of the beneficiary entities carrying out procurement, in which the entities' internal audit unit will take part.
- 5.11 Training for beneficiary entities of projects on preparing their project's procurement plan. These plans will subsequently be aggregated by the Ministry of Finance's PEU into the program procurement plan.

F. Records and files

- 5.12 The documentation for procurement procedures will be held in the offices of the Subsecretariat of Finance (SSH), as the agency responsible for program management, and at each of the PEUs of the beneficiary entities implementing the projects comprising the program.

⁴ Responsibility, review support, and methodology are described in the ex post procurement guidelines document. The procurement plan will state which review method will be used for each type of procurement, i.e., (i) ex post, (ii) ex ante, or (iii) country system.

⁵ Thresholds established for ex post review are applied according to the executing agency's fiduciary capacity for execution and may be changed by the Bank if this capacity changes.

VI. FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** The ministry budget forms part of the national budget, defined in the Organic Law on the Financial Administration of the State (LAFE). The Ministry of Finance is responsible for preparing the public sector budget through the Budget Directorate (DIPRES). The executing agency uses the SIGFE for budgetary control and management. Due to the interrelation between the budgetary systems, loan operations must be included in the national budget in order to be able to access resources (loan and local contribution). No difficulties are therefore anticipated in the use of the budgetary system that would affect program execution. Notwithstanding the foregoing, the general conditions of the contract must consider the need to demonstrate the annual allocation of resources (local contribution and financing) in order for the executing agency to send the Budget Law to the Bank.
- 6.2 **Accounting and information systems.** Although the CGR is responsible for keeping the national accounts and defining the relevant principles and rules for these purposes, the accounts are decentralized and institutions register their transactions in their accounts. These departmental accounts are consolidated by the CGR. The program will have a chart of accounts for recording activities in SIGFE under a transactional unit. The executing agency has an adequate financial information system and an internal control structure for its purposes. The semiannual status reports delivered to the Bank must monitor the observations made in the audit reports, and include a reconciliation report between the executing agency's accounting books and those of the Bank.
- 6.3 **Disbursements and cash flow.** The Treasury of the Republic (TGR) maintains and controls the single fiscal account through which funds are provided in accordance with the cash program in accounts maintained by institutions, and on the other side it receives revenues. As the entities are autonomous in administering these current accounts, they need to be endorsed by the CGR to open them. In the executing agency payments are made via the SIGFE treasury module, within 30 days of receipt agreed by the requestor of the goods and/or services acquired, upon issue and registration of the orders. The system has various checks at the fund approval and authorization stage.
- 6.4 **Disbursement methods.** (i) Advances; (ii) reimbursement of executing agency; and (iii) direct payments.
- 6.5 **Disbursement requests.** The Bank will process disbursement requests in accordance with the formulas required in the "Disbursement Guide," once the conditions precedent to the first disbursement have been met. Bank charges arising out of the disbursements will be met by the executing agency.
- 6.6 **Supporting documentation.** The executing agency is responsible for keeping the accounting books required and maintaining the originals of all the supporting documentation. Disbursements will be reviewed ex post by the external auditors.

- 6.7 **Origin of goods and services.** Proceeds from the Bank's loan may only be used to pay for goods and services originating in Bank member countries.
- 6.8 **Eligible expenditures.** The Bank considers those expenditures that: (i) are necessary for the program and are in line with its objectives; (ii) obey policies and contracts or legal agreements of the program; and (iii) are appropriately registered and supported in the executing agency.
- 6.9 **Internal control and internal auditing.** The internal control system rests on the ministry's organizational plan, strategic plans, operational and control procedures, approved by the Internal Auditor General's Office, administrative standards of ethics and probity, on Law 20,285 on transparency and access to public information, legislative, regulatory and administrative rules, verification and evaluation mechanisms, and internal audits. The office reports to the minister. It has appropriate staff, procedures, and work plans and programs. It will follow up on the internal control observations made by the program's external auditors, and validate the responses to the auditors' observations, and it will countersign the financial statements to be delivered for auditing.
- 6.10 **External control and reports.** In this case the executing agency will use independent auditors acceptable to the Bank, the CGR being one of them. Within 120 days following the end of each budget year during the disbursement period, the executing agency will deliver the program's financial statements to the Bank, audited in accordance with the terms of reference agreed on with the Bank. The last report is to be delivered within 120 days following the date stipulated for the last loan disbursement.
- 6.11 **Financial supervision plan.** As the risks of the current program have been assessed as being low, annual and final audited financial statements will be required, along with financial information in the semiannual technical reports. The external auditors will perform the ex post review of disbursements. The internal audit unit will follow up the external auditors' observations. The Bank will review the external auditors' reports and working papers when it sees fit, and will perform desk reviews and financial/accounting visits to the executing agency, based on the risk matrix for the Bank's portfolio in the Country Office.
- 6.12 **Execution mechanism.** Beneficiary entities will undertake all the technical and administrative activities necessary to run their projects using resources assigned to their regular budget earmarked for program activities. For this purpose they will create a PEU. The PCU will supervise the progress of project activities, consolidating information on expenditures, contracting, and procurement at the program level, and it will draw up financial statements for them. The executing agency will request from the Bank the reimbursement from the loan proceeds of expenditures made in procurement and contracting envisaged in the program's procurement plan (list of expenditures). The Bank will verify the relevance of the expenditures against the program procurement plan and the updates to it submitted by the executing agency. Given that the debt will be assumed by the Subsecretariat of Finance and recognized on its balance sheet, the beneficiary entities will not have

a budget item for the debt. However, the expenditures made under the program will be identified and recorded against Section 24 of the budget law. The program accounts will be kept by the Subsecretariat of Finance, where all the expenditures it makes and transfers it originates for substantiation of expenditures by beneficiary entities will be recorded.

6.13 Other financial management agreements and requirements. These will be:

- a. The program is to have a chart of accounts; the executing agency will record entries in the SIGFE under the transactional unit for operations with international organizations (IDB, World Bank, etc.).
- b. Beneficiary entities are to register their expenditures for the project, regardless of the source, against Section 24 of the budget law.
- c. The semiannual status reports are to include follow-up of the auditors' observations and a reconciliation report between the executing agency's accounts and those of the Bank.
- d. The external auditors will carry out ex post review of disbursements, and their findings are inputs for the declaration of eligibility of expenditures by the Bank.
- e. The disbursement requests are to be numbered in sequence, approved by an official appointed by the executing agency whose signature is to be registered with the Bank. The internal audit unit will follow up on observations made by the external auditors, review the financial statements before they are delivered to the external auditors, and audit the inventory of assets acquired.
- f. A single current account will be established for program resources (loan and local contribution), with monthly bank reconciliation of the current account.
- g. A financial training workshop will be held for the executing agency with the internal audit unit.
- h. The Operations Policy Committee (OPC) will be asked to grant a waiver to the Financial Management Policy for IDB-financed Projects (document OP-273-2), so that the executing agency may request new advances when it has accounted for at least 65% of the cumulative balance pending substantiation, and that it be given up to nine months to substantiate advances, provided they have been requested with financial plans consistent with these periods.
- i. In view of the complexity of the program, which will support various entities with differing execution capacities, and given that a high level of execution is being sought in the next three years, that it will be managed for results, and that the executing agency does not wish to request more than two disbursements per year, the flexibility in the substantiation required to request new disbursements and in the financial plan program's timing periods for substantiation is tailored to the needs of the executing agency and project, and the risk is not being increased as it avoids more resources being requested than are necessary.